

*Commission of the European Communities*

**INFORMATION ON AGRICULTURE**

**Credit to agriculture  
in the E.C. Member States**

**– A COMPARATIVE ANALYSIS**

**No. 28**

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## CREDIT TO AGRICULTURE IN THE E.C. MEMBER STATES

### – A comparative analysis

*Series: "Information on Agriculture"*

**No. 28**

This volume contains a comparative analysis of the situation and trends as regards agricultural credit in the Member States of the European Community; it is based on individual studies which have already been published.

The first part examines and compares the development of agricultural credit since the early 60s in the context of general economic development:

- its importance within the total volume of credits granted to the economic sectors,
- the debt burden of agriculture,
- the type of credits (short, medium or long-term),
- the influence of the authorities on the availability and grant of agricultural credit,
- the organization and costs of agricultural credit.

The first part concludes with general analysis of the influence of short- and long-term economic trends on agricultural credit.

The second part describes the probable general trends in credit for the agricultural sector in the future and the changes being made or planned. These factors are placed in the context of foreseeable general economic developments and capital market trends.

Conclusions are drawn as to the ability of agricultural credit to withstand competition from the other sectors in the future, and the conditions the authorities must create to guarantee agriculture access to the capital necessary for its development and modernization.

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*(This study is published in French and English).*

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**COMMISSION OF THE EUROPEAN COMMUNITIES**  
**DIRECTORATE-GENERAL FOR AGRICULTURE**  
Directorate: Agricultural Economics — Division: "Balance-sheets, Studies, Statistical Information"

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## FOREWORD

The study 'Agricultural Credit in the EEC Member States - a comparative analysis -' was carried out within the framework of the study-programme of the Directorate General for Agriculture by a group of experts. Reports relating to agricultural credit in each of the Member States (\*) were prepared on the basis of which a comparative analysis was made.

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The comparative analysis at the level of the Community is contained in the present document. That analysis has been prepared in cooperation with the other members of the group by

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This study does not necessarily reflect the view of the Commission of the European Communities and in no way commits the Commission as to its future position in this field.

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My thanks are due to the members of this study group not only for their report but also for the additional information and critical discussion of the draft reports, thus facilitating my task. I am very grateful to Dr. M. van den Adel, the Head of the International Management Division of the Coöperatieve Centrale Raiffeisen-Boerenleen Bank, for the substantial contribution I received from him in carrying out this study.

Prof. Dr. G.J.M. VLAK

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(\*) References:

Published in the series "Internal Information on Agriculture"

- "Credit to Agriculture" - Denmark    No. 146
- "Credit to Agriculture" - U.K.        No. 147
- "Credit to Agriculture" - Ireland     No. 167

Published in the series "Information on Agriculture"

- "Crédits à l'Agriculture" - France, Belgique, Luxembourg No. 1
- "Kredite an die Landwirtschaft" - Bundesrepublik Deutschland No. 2
- "Il credito all'agricoltura" - Italia No. 3
- "Landbouwkrediet" - Nederland No. 4

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A. Investigation of the present situation as regards agricultural credit

The demand for agricultural credit - the monetary expression of all transactions which are not financed by own funds - has in the past decades been heavily influenced by structural changes in agriculture in the EEC Member States. These changes have not been due to market factors alone but have also been influenced by the decisions of national and supra-national bodies. In addition to Community integration of agriculture - differing national markets developing into one intra-European market - there has also been vertical economic integration in the agricultural sector. Undertakings which were still concerned with agricultural production on the formation of the EEC have gradually shifted to the production-processing area. On the other hand, undertakings which had previously been included in the industrial sector are now regarded as belonging to the agricultural sector (in a broad sense). The stage of consolidation, rebuilding and gradual modernization in the 1950s was followed by a period of intensification, expansion and diversification of agriculture which continues today.

This development has taken place during a period of intense technological advance which has also been increasingly applied in the agricultural sector. The result of technological and biological developments has been not only an increase in agricultural productivity, enabling food demand to be satisfied by an ever-decreasing number of undertakings, but also a selection process amongst agricultural undertakings, which has not been without its social and financial consequences.

Although the demand for agricultural products has grown with increasing population and increasing incomes, income elasticity has remained (and still remains) below one<sup>(1)</sup>. Despite the great productivity increase, agriculture has not been able to compensate for this incomes structure defect which has resulted in numerous agricultural undertakings being eliminated from the production process.

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(1) According to "Engel's Law (1857)", the proportion of expenditure on food in total consumer expenditure decreases with increasing incomes.

This macro-economic factor has been further intensified by the increasing competition of (more) efficiently operating agricultural undertakings in the EEC Member States, whose access to the national market has ever-increasingly expanded. The national character of the market for agricultural products has changed to an international or EEC character. This has meant that the agricultural entrepreneur has had to face foreign competitors in addition to continuing domestic competition. But he has also been offered opportunities of expanding his market. Since the 1960s, the entrepreneur and the co-operative have been compelled by market events to take an ever-increasing number of factors into consideration. It has been necessary to analyse various market data, both on the supply and demand sides, in order to enable a decision to be taken in keeping with market conditions.

On the supply side this has, for example, concerned the product, product quality and product developments by the agricultural undertaking concerned and by competitors' market force and strategy, the potential in respect of basic materials and auxiliary materials and other equipment, suppliers' capacities, financing aspects and marketing methods. Some of the factors that have had to be taken into account on the demand side have been the development of high-purchasing-power demand, demand structure and preference, client structure, and the purchaser's assessment of competitive and substitute products.

In addition to these factors it has also been necessary to evaluate present and future economic conditions in the decision-making process concerning whether or not supply should be increased, and the investment activities arising therefrom.

The only agricultural undertakings that have been able to survive the selection process arising out of income theory and the growing competition struggle have been those which are distinguished from other suppliers by venturing to apply modern management methods and to make progressive adjustments to the production apparatus. Productivity and productivity lead are however the determining factors for the survival of the undertaking.

The economic magnitude of agriculture

	Belgium	Federal Republic of Germany	Denmark	France	U.K.	Ireland	Luxembourg	Netherlands	Italy
Population employed: in agriculture as %:	1958 : 9,4 1966 : 6,2 1968 : 5,3 1970 : 4,8 1973 : 3,8 1974 : 3,5	15,7 9,7 10,0 8,6 7,5	20,1 13,2 11,7 11,5 9,5 8,0	23,7 17,2 15,5 14,0 12,2 10,7	4,4 3,3 3,1 3,0 2,8	38,4 - - 27,1 25,1	17,9 11,3 11,1 19,0 6,5	12,7 7,6 7,7 7,2 6,8	34,9 24,0 23,2 19,5 17,3 16,5
Average annual fall: as % of population employed in agri- culture(1962-1972)	5,5	5,1	4,0	3,6	2,3	3,2		3,2	5,7
Proportion of agri-: culture, fisheries and forestry in the: gross domestic product	1958 : 7,4 1966 : 5,4 1968 : 5,1 1970 : 4,1 1972 : 4,5 1973 : 4,3 1974 : 3,2	- 5 4 3,7 3,4	16,0 12 9 7,7 7,7 6,5(74)	10,5(60) 8,3(65) 8 6,9 - 7,0	4,4 3,3 3,1 3,0 2,8	- - 16,9 18,0	8,8 6,3 6,0 4,1 4,7	- 8 7 6,2 5,7	26,0 13,0 11,0 10,2 10,0 9,0
Proportion of agri-: cultural income in : the national income:	1966 : 3,9 1968 : 3,7 1972 : 3,6 1973 : 3,3 1974 : 2,3	4,4 3,7 3,0	9,3 7,4 6,0	8,9 7,7 6,8	3,2 3,0 2,5	17,9	4,3 4,1 3,8	7,3 6,8 5,6	11,7 10,2 8,5

Table 1

Sources: - Ministry of Agriculture, The Hague  
 - Yearbook of Agriculture Statistics of the Bureau of Statistics for the European Communities  
 - Reports on agricultural credit in the different Member States.

Size of undertaking<sup>x)</sup> and form of occupancy

		Belgium	Federal Republic of Germany	Denmark	France	U.K.	Ireland	Luxembourg	Netherlands	Italy
Average size of undertaking (hectares)	1960 : 1970 : 1972 : 1974 :	8,3('59) 11,6 (12,6) 13,4	8,3 10,3 11,2	15,9 20,6 21,3 22,4	15,0 18,5 19,6 22,0	- 36,2 37,4	16,0 17,7 18,0	13,4 19,4 20,9	9,9 11,5 12,2	6,2 6,9
Form of occupancy (in %)		1970	1965/67	1974	1970/71	1971	1972	1974	1970	
Freehold		27,3	77,7	87,0	51,8	53,1	92,0	59,6	51,9	
Lease		72,7	22,1	13,0	45,9	46,9	8,0	40,4	48,1	
Part Lease		-	0,2	-	2,3	-	-	-	-	

Sources : see table 1

x) Agricultural holdings with 1 ha. agricultural area (A.A.) and over.

Table 2

Undertakings which did not keep pace with economic and technical developments and whose productivity was therefore inadequate to bear the investments necessary for the economy of the undertaking, and which were unable to guarantee the necessary minimum subsistence for the owner or owners, have gradually disappeared from the production process. The total number of agricultural undertakings ( > 1 ha) in the nine EEC Member States was 7 272 000 in 1960, but only 5 398 000 at the end of 1972. The total active population employed in agriculture underwent an even sharper reduction of 52%, falling from 18.1 million to 9.4 million in the period from 1958 to 1973.

The availability of farmland fell only slightly during the period under review, from 100.1 million ha in 1958 to 93.7 million ha in 1973. Whereas several buildings have been taken over by non-agriculturists, the land - in some cases as a result of government initiative - has been taken over by established agricultural undertakings. The average size of the undertaking rose from 13.5 ha in 1958 to 17.4 ha in 1972.

Despite the decline in the number of holdings and labour production rose steadily. The volume of total agricultural production increased by an average of 2.4% per annum from 1965 to 1972.

However, it was not possible for the increase in the value of agricultural production - an average of 5.3% - to balance the average yearly price increase in purchased goods, services and factor costs (due particularly to wage increases). Although the increase in productivity compensated partly for the increase in costs, the deterioration in the value of money nevertheless resulted in a decline in the income position of the agricultural sector. This development and the generally increased investment activity in both fixed and movable assets, combined with expansion and modernization as outlined above, the nominal extent of which has been continuously increased by accelerating inflation, has brought the traditional method of financing in the agricultural sector - i.e. the high degree of self-financing (savings and depreciation) - into question to such an extent that the agricultural sector in all the EEC Member States has had to have recourse to external capital.

Table 3

Agricultural undertakings with more than 1 hectare of cultivated land<sup>(1)</sup>

Country	Year	1-5 ha	5-10 ha	10-20 ha	20-50 ha	50 ha	Number	Cultivated Land (x1000 hectares)
		percentages						
Belgium	1959	48	27	18	6	1	195.456	( 1.629) <sup>3)</sup>
	1967	37	27	24	11	1	147.183	1.549
	1970	34	25	26	13	2	130.397	1.517
	1973	31	23	27	16	3	113.902	1.491
Federal Republic of Germany	1960	44	25	21	9	1	1.385.250	(14.345) <sup>3)</sup>
	1967	40	23	24	12	1	1.206.308	-
	1970	37	21	25	15	2	1.083.128	13.578
	1973	36	20	24	18	3	967.809	13.429
Denmark	1960	18	28	28	23	3	193.700	( 3.129) <sup>3)</sup>
	1967	13	23	31	27	5	162.567	-
	1970	12	21	31	31	6	143.400	2.965
	1973	12	20	29	32	7	135.923	2.976
France	1960	26	21	27	20	6	1.773.500	(34.371) <sup>3)</sup>
	1967	24	19	26	24	7	1.575.900	-
	1970	23	18	25	26	8	1.420.924	32.985
	1973	22	16	24	28	11	1.300.000	32.475
U.K.	1960	30	13	16	22	19	443.100	(19.374) <sup>3)</sup>
	1967	30	13	15	22	20	393.000 <sup>2)</sup>	-
	1970	19	13	16	26	27	312.485	18.836
	1973	16	13	16	26	29	287.384	18.638
Ireland	1960	18	22	30	23	7	281.000 <sup>4)</sup>	( 4.717) <sup>3)</sup>
	1967	18	21	30	24	7	274.000 <sup>4)</sup>	-
	1970	18	20	30	24	8	270.000 <sup>4)</sup>	4.795
	1973							4.841
Italy	1960	68	19	8	3	1	2.756.336 <sup>4)</sup>	18.658
	1967	69	18	8	4	1	2.477.325	-
	1970	68	18	8	4	2	2.174.807	17.700 <sup>2)</sup>
	1973							17.514 <sup>2)</sup>
Luxembourg	1960	32	18	26	22	2	10.385	( 140) <sup>3)</sup>
	1967	24	16	25	32	3	7.870	-
	1970	22	14	22	38	4	6.939	135
	1973	21	13	20	40	7	6.106	133
Netherlands	1960	38	27	23	11	1	230.312	( 2.311) <sup>3)</sup>
	1967	35	24	27	13	1	203.178	-
	1970	26	24	32	17	1	164.119	2.205
	1973	25	22	31	20	2	149.566	2.110

1) Based on data from the Yearbook of Agriculture Statistics 1974 of the Bureau of Statistics of the European Communities.

2) Break in comparability.

3) Data for 1958.

4) Estimate.

#### A.1. Share of agricultural credit in the capital market as a whole

The acquisition of additional farmland, the purchase of holdings by young farmers and, in particular, the construction and modernization of farm buildings were the main factors determining the increase in the agricultural debt burden<sup>1)</sup>.

In absolute terms, external capital in the agricultural sector rose as follows:

Belgium	1962-1974 from 0.414 to 0.752 thousand million u.a.			
Denmark	1963-1972 from 1.79 to 3.75	"	"	"
Federal Republic of Germany	1960-1974 from 2.85 to 7.90	"	"	"
France	1960-1973 from 2.20 to 13.00	"	"	"
U.K.	1960-1974 from 1.17 to 2.93	"	"	"
Ireland	1963-1973 from 0.27 to 0.65	"	"	"
Italy	1960-1973 from 1.50 to 3.72	"	"	"
Luxembourg	1960-1974 from 0.019 to 0.046	"	"	"
Netherlands	1960-1973 from 0.95 to 2.56	"	"	"

On average, agricultural credit in the EEC rose by 7.5% annually. However, the agricultural demand for external capital in Denmark, Ireland and, particularly, in France, exceeded this EEC average considerably. Despite the appreciable increase in volume, agriculture did not increase its share in the total (national) borrowing. This shows that the agricultural financing pattern, i.e. the increased financing of investments by external capital, fell back as compared with the other macro-economic sectors<sup>2)</sup>.

- 1) For example, in 1973 in Luxembourg 17% of the agricultural credit was intended for the purchase of holdings, 16% for the acquisition of cultivated land, 43% for the construction or acquisition of buildings and 14% for the take-over of agricultural land without buildings. In the UK, in 1975, 50% of the credit granted by the AMC was used for the purchase of agricultural undertakings (as compared with 65% in 1960), 33% was intended for the repayment of bank loans (16% in 1960), 10% was invested in modernization and 6% was used as working capital.
- 2) Hereinafter agricultural credit will be related to domestic private credit and total domestic credit. The latter value includes government loan activities. In countries where there is a traditional extensive government recourse to financial markets, a relation based on the total domestic credit may give a distorted picture of the significance of the (agricultural) debtor group.

Table 4

Agricultural credit and national capital markets

		Agricultural credit	Extent of outstanding credits to private sector	Domestic	Proportion of agricultural credit in private credit as a %	Proportion of total domestic credit as a %
				'000 MILLIONS		
<u>Belgium</u>	<u>Bfr.</u>					
	1960	(15.7)	54.9	200.5	(28.6)	(7.8)
	1965	27.2	116.6	329.6	23.3	8.3
	1969	33.5	207.9	506.0	16.1	6.6
	1970	32.9	234.8	553.2	14.0	5.9
	1973	36.6	398.9	712.4	9.2	5.1
<u>Federal Republic of Germany</u>	<u>DM</u>					
	1960	12.0	119.6	143.4	10.0	8.4
	1965	19.0	224.9	272.3	8.4	7.0
	1969	27.6	385.9	446.3	7.2	6.2
	1972	27.1	569.3	643.5	4.8	4.2
	1974	28.9	672.1	769.3	4.3	3.8
<u>Denmark</u>	<u>D. kr.</u>					
	1963	12.4	26.0	29.1	47.7	41.2
	1968	20.5	49.0	50.7	41.8	40.4
	1972	28.4	75.5	72.1	37.6	39.4
<u>France</u>	<u>FF</u>					
	1960	11.7		28.5		9.1
	1965	27.6		256.1		10.8
	1970	52.6		531.3		9.9
	1973	78.5		851.6		9.2
<u>U.K.</u>	<u>£</u>		(millions)			
	1960	416.6	4.535	11.528	9.2	3.6
	1968	643.0	8.782	24.478	7.3	2.6
	1970	698.3	10.786	25.489	6.5	2.7
	1973	1.022.7	26.373	42.595	3.9	2.4
	1974	1.220.8	31.044	49.923	3.9	2.4
<u>Ireland</u>	<u>£</u>		(millions)			
	1963	87.6	254.8	270.0	34.4	32.4
	1968	117.2	413.2	532.3	28.4	22.0
	1972	202.3	695.8	849.8	29.1	23.8
	1973	254.0	758.2	1.047.0	32.3	24.3
	1974	300.1				
<u>Italy</u>	<u>L</u>		(milliards)			
	1960	940	8.315	12.074	11.3	7.8
	1965	1.550	17.603	24.213	8.8	6.4
	1969	2.390	26.611	35.869	9.0	6.7
	1970	2.010	35.013	48.035	5.7	4.2
	1973	2.329	46.813	67.486	5.0	3.4



Table 4 continued

	Agricultural credit	Extent of outstanding credits to private sector	Domestic	Proportion of agricultural credit in private credit as a %	Proportion of total domestic credit as a %
	<u>'000 MILLIONS</u>				
<u>Luxembourg</u> <sup>(1)</sup>	<u>Lfr</u>				
1960	0.667		8.732		7.6
1965	1.200		16.641		7.2
1969	2.353		23.414		10.1
1970	2.695		26.041		10.4
1972	3.134		35.149		8.9
1973	3.488		42.879		8.1
<u>Netherlands</u>	<u>fl</u>				
1963	1.8	24.6		7.3	
1968	3.3	49.6	45.1	6.6	15.2
1972	4.9	86.9	56.4	5.6	13.2
1973	5.4	105.0	75.4	5.1	10.2

Sources : Reports on agricultural credit in the EEC Member States  
- IMF Financial Statistics.

1) Bank credits.

In Belgium, where the proportion of external capital (excluding extensive leasing<sup>1)</sup>) on the liability side in agriculture rose from 5.3% in 1962 to 6.3% in 1974, the proportion of agricultural credit in outstanding loans to the private sector dropped from 28.6% in 1960 to 9.2% in 1973. Lagging government credit demand in the early 1960s resulted in the proportion in domestic credit rising initially from 7.8% to 8.3% in 1965.

Increased government borrowing during the past 10 years, however, caused the proportion of the agricultural sector in the financial markets to drop to a ratio which corresponds reasonably to the importance of agriculture in the national economy. There was no excessive contracting of debts. Unfortunately, it is not possible to draw any distinction based on the maturity of loans. An intensive call on the capital market (medium and long-term credits) would, in fact, underline the structural changes in agriculture in the period under review. These funds are invested mainly in farmland, buildings and equipment, thus accentuating the substitution of labour by capital. Short-term credit, on the other hand, is used as working capital (inter alia to finance stocks).

With regard to agriculture in the other EEC Member States, agriculture in Denmark has a relatively high debt position. This is manifest both in the comparatively highest ratio of external capital per hectare of cultivated land and in the considerable proportion of external capital in the agriculture "balance sheet". This is explained partly by the fact that tenancy is practically no longer existent. Extensive recourse to external capital is apparent from an extremely high share in the financial markets. Although this share has dropped steadily as a result of borrowing by the other macro-economic sectors, this steady decline has nevertheless dropped off together with the decline of the contribution of agriculture to the gross national product. The ownership situation is also reflected in the credit structure. Ownership not only forms the mortgage basis for a high proportion of external capital - 40% - on the liabilities side, but also promotes demand for long-term finance. The owner-occupied farmer is much more inclined to make long-term capital investments in lasting production means than the leaseholder whose investments are of a short-term nature.

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1) Leased land and leased buildings account for more than 50% of the agricultural liabilities.

The rise in outstanding medium and long-term credits from Dkr 8700 million in 1963 to Dkr 21 500 million in 1972 with the result that the proportion of medium and long-term credits on the liabilities side rose from 28 to 30.5% while the proportion of short-term credit dropped from 12 to 10%, can be brought into causal relationship with the type of occupancy - and the mortgage basis. The amortization period, which is a long one by international standards, does not have such a stimulating effect on this credit development but does have a mitigating influence on the effect of the debt position.

After an acceleration from DM 12.000 million in 1960 to DM 26 000 million in 1970, loans to agriculture in the Federal Republic of Germany stabilized. In the first four years of this decade, external capital rose by DM 3000 million. From this it was concluded that the tendency of agriculture to investment is declining in Germany. This can be attributed in part to the technological and rationalization level achieved in the meantime in agriculture. According to (national) assumptions, credits in recent years have been used mainly for replacement and not for expansion investments. This investment pattern, which has developed contrary to that of the other macro-economic sectors, has resulted in a decline in agriculture's recourse to financial markets. The share of agricultural credit in the total domestic borrowing fell from 6.2% in 1970 to 3.8% in 1974. In 1960 this share was as much as 8.4%. The stagnant investment activity has also manifested itself in a structural shift of agricultural credit. Where medium-term and long-term external capital was still attracted on a large scale in the 1960s, so that the share of these components in the balance sheet rose from 6.4% in 1960 to 15% in 1970, the declining investments in the first four years of this decade resulted in a decline of this capital component to 12% of the liabilities in 1974. The short-term credit share, on the other hand, which exhibited a gradual growth in the 1960s, rose from 5.4% in 1970 to 8.7% in 1974.

This relative and absolute increase - the extent of short-term credit doubled in these years - was of course favoured by the development of interest rates. In 1973, the interest rate reached a record (for the period under review).

Based on the consideration that any fall in the interest rate means that debts can be consolidated, short money was used for financing then and in 1974 to an increased degree<sup>1)</sup>.

With an average annual growth of 14.5%, agriculture in France has experienced the greatest rise in the extent of external capital. Despite the acceleration in debts, the proportion of agricultural credit in the total domestic credit volume over the period under review was substantially constant. After a rise from 9.1% in 1960 to 10.8% in 1965, the proportion dropped back to 9.2% in 1973. Until 1960 agricultural demand for credit lagged behind that of the other macro-economic sectors. However, this situation changed in the period from 1960 to 1965.

In comparison with the decline in the proportion in agriculture in the domestic product from 10.5% in 1960 to 8.3% in 1965, the call on financing markets rose sharply. This was due particularly to structural adaptation and to investments aimed at increasing productivity in agriculture.

It is also apparent from the sharp increase from 12.2 to 15.2% in the proportion of medium-term and long-term agricultural credit in total domestic loans. These funds are invested mainly in equipment and are raised from the acquisition of farms by young farmers. The proportion of these credits on the liabilities side in agriculture then almost doubled to 6.1% in 1965 and the rise continued until 9.4% in 1973. On the other hand, the growth of agricultural debts during the last ten years has lagged in comparison with the acceleration of indebtedness in other macro-economic sectors. The proportion of agricultural credit in domestic loans, however, was maintained at a higher level than the share of agriculture in the domestic product.

Whereas this dropped from 8.3% in 1965 to 7.0% in 1973, the proportion in domestic credit dropped from 10.8% in 1965 to 9.2% in 1973.

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1) Of course, this consideration has also influenced the term structure of agricultural credit in this decade in other countries as well.

In the United Kingdom it is difficult to quantify the recourse of agriculture to the financial markets due to the existence of forms of credit which are not included in statistics but on which there is some information from various inquiries<sup>1)</sup>. As a result of the high proportion of leases as the form of occupancy for farmland (47% in 1971) - for which there is only a limited mortgage base - short-term bank credit and particularly suppliers' credit play an important part. Of the total finance taken up by agriculturists, 43% in the case of owner-borrowers in 1970 originated from the financial institutions, 24% from the private sector (members of the family) and 32% was suppliers' credit. Leaseholders, on the other hand, took 26% of their finance from the financial institutions, 21% from members of the family and 52% in the form of suppliers' credits. Bank credit taken up by leaseholders consisted practically solely of current account loans and only a fraction (4%) was taken up as mortgage loans. Landowners, on the other hand, took 11% of the allocated credit in the form of mortgage loans. A striking fact is the fairly high debt burden of leaseholders in connection with suppliers and trade. Despite positive experience in the past this might be to the farmer's detriment. Consideration should be paid in this connection to the high rate of interest on suppliers' credits and the freedom of movement of those concerned in the selection of their purchase and sales outlets. The latter eventuality might also result in a rigidity of competitive relationships on the consumer goods market.

In view of the statistical limitations, bank loans will hereinafter be regarded as an indicator of the credit wishes of the agricultural sector. Bank loans to this group of debtors expanded from £416.6 million to £1220.8 million in the period from 1960 to 1974.

It should be noted that in the period from 1960 to 1970 debts showed a modest increase from £280 million but since then they have practically doubled. Nevertheless, the fall of the proportion of agricultural bank credit in domestic credit continued. In 1974 the proportion was 3.9% compared with 9.2% in 1960. This fall must, however, be assessed against the background of a declining (agricultural) contribution to the domestic product (2.8% in 1972 as compared with 4% in 1960) and the acceleration in the external capital financing of the other macro-economic sectors.

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1) E.g. the report by Prof J.S.G. Wilson, Availability of Capital and Credit to United Kingdom Agriculture, published in 1973.

A survey of agricultural credit in Ireland is rendered difficult because up to 1972 financial institutions only partially classified their investments according to use and not at all according to term. The Associated Banks (with the Central Bank), for example, concluded loan agreements up to 1972 without fixed repayment conditions, repayment being made on a current account basis. Any estimate of the extent of agricultural lending is also hampered by loans obtained abroad, which are outside the scope of official statistics. If bank credit is again regarded as an indicator of recourse by agriculture to external capital, then the robust credit expansion in the 1970s is striking. After reaching £87.6 million in 1963, credit to agriculturists rose to £117.2 million in 1968, then accelerated to £202.3 million in 1972 and, after an increase of £50 million in each of the subsequent years, reached £300.1 million in 1974. This increased call on the financial institutions can be explained partly by the mood of euphoria surrounding Ireland's accession to the EEC. This increased confidence in the future also stimulated the demand for credit by the other macro-economic sectors. The total domestic credit rose by £450 million in the period from 1968 to 1973. Nevertheless, Irish agriculture increased its share in domestic (bank) credit from 19.2% in 1972 (as compared with 26.7% in 1963) to 20.4% in 1974.

Consequently, the percentage of the agricultural contribution to the national product (16.9% in 1970 and 18% in 1972) was considerably exceeded.

With an average increase of 6.7% per annum, agricultural credit in Italy is favourable as compared with developments elsewhere in the EEC, particularly when inflation in Italy is compared with that of the other member countries. Despite the rise from Lire 940 000 million in 1960 to Lire 2 329 000 million, the development of external capital kept pace with the position of agricultural self-financing. The proportion of external capital in the "balance sheet" showed a slight increase from 5% to 6.2%. Despite pronounced inflation in recent years, there has been no striking shift from medium and long-term external capital to short-term credit. This is probably due to the active encouragement of the investment activities of the agriculturist by the authorities, who largely absorbed the rise in interest rate burdens.

Agricultural credit demand also compared favourably throughout the entire domestic credit picture. In relation to the credit made available to the private sector, the proportion of agricultural credit dropped from 11% in 1960 to 5% in 1973. If we consider the extensive government loan activity, then the proportion of agricultural credit in the total credit volume drops to as little as 3.4% in 1973.

In relation to the contribution to the national product, which incidentally fell from 14.8% in 1960 to 10% in 1973, agriculture operated with a modest call on external capital here. Taking into account the considerable decline in the proportion of the population employed in agriculture (from 29% of the working population in 1960 to 17% in 1973) the question arises whether the substitution of labour by capital is absorbed primarily by self-financing - which grew on average by 5.7% - or whether agriculture has lost out through the fall-off in productivity and production potential.

In Luxembourg, lending to agriculture steadied in the 1970s. After an upsurge in the demand for loans in the second half of the last decade under government encouragement, as a result of which agricultural (bank) credit rose from Lfr 1200 million in 1965 to Lfr 2700 million in 1970, there was some stagnation in 1971 to 1973. The proportion of agricultural credit on the debtors side of the Luxembourg banks, which rose from 7.2% in 1965 to 10.4% in 1970, again dropped back to the earlier level of 8.9%. Nevertheless, in view of the contribution of agriculture to the gross national product of 4 - 4% in the 1970s by the agricultural sector, there was a disproportionate call on financial resources.

In the Netherlands a high level of saving (the savings of agricultural holdings amounted on average to 38% of available income), depreciation facilities, gifts, legacies and profits from the sale of real property ensured a state of high-degree self-financing. In 1962-73 an average of 84% of annual financing requirements was met from farmers' own funds. Dependence on external capital rose on average by 7.9% per annum during that period. Despite the interest rate level increase, which was felt here as well, there was no shift in the term structure from the long-term to the short-term. The short-long term ratio itself changed from 22:78 to 19:82 in the period under review.

The proportion of long-term external capital in the total balance sheet of agriculture and horticulture rose from 11.5 to 13.5%, while the proportion of short-term credit was maintained at 3.2%. The limited dependence on external capital resulted in a fall of the proportion of agriculture in domestic credit from 7.3% in 1963 to 5.1% in 1973. Consequently the dependence of the agricultural sector on the financial markets corresponded to its contribution to the gross national product, which also dropped, i.e. from 10.2 to 6.8%. There was no excessive external capital financing.

x  
x                      x

The view which is frequently held, to the effect that agriculturists save considerable amounts and therefore are wealthy but also receive favourable credits, cannot be substantiated by factual data. There are practically no concrete data in the EEC Member States concerning the agricultural sector supply on the money and capital market.

Banks make no distinction according to their (social) origin between funds entrusted to them. In the Federal Republic of Germany it is estimated that the proportion of agriculture in savings with the co-operative banks is about 7 - 8% and with the savings banks about 4 - 5%. The Netherlands has some data concerning the contribution of the agricultural sector to the capital market. It is estimated that in 1962-1973 an average of 2.9% of the net capital supply came from the agricultural sector. The proportion of agriculture savings in total savings with dutch banks came out at 8% in 1973. In France agriculturists owned 7.8% of the financial assets at the end of 1972. In Denmark, active savings by agriculture from 1968 to 1972 were a total of Kdr 300 million, corresponding to 2.2% of the volume of savings.

In Belgium the share of this sector in savings as a whole is related to the ratio of the agricultural population to the total population and the share of agricultural income in the national income. Thus agricultural savings in 1970 were estimated at 4.6% of the total volume of savings. In the Luxembourg and Italian reports comment was limited to the observation that agricultural savings were slowing down (Luxembourg) and becoming more attractive as a result of government measures (Italy). It may probably be stated as a general conclusion that the savings activities by agriculture in the investment activities in real and movable property (including stocks) lagged behind in all the EEC States and that a net call on the capital was therefore necessary.



## A.2. Debt burden in agriculture

Any attempt to draw up a survey which is to some extent comparative concerning the debt position in agriculture in the Member States of the Community is hampered by the methods of quantifying assets and the sources of financing in each of the countries concerned. Usually the basis is an inquiry, a random sample or a census which took place years before and the result of which is brought up to date in some way or other. The valuation of goods often appears arbitrary; after all, the choice is open between tax, market, insurance, purchase and sales valuations whether or not corrected for depreciation, which latter similarly leaves wide scope as regards percentages and life expectation. Moreover, it is often very difficult to value separately goods which form an economic unit and are usually sold or leased together (land and buildings, for example). Again, the valuation of such a unit is made more difficult by the question of ownership - for example, a building belonging to a tenant may stand on leased land; the land is then less marketable and the value of the building is reduced. There are also problems in valuing livestock, since in this respect there are usually no exact details available. Making up the debit side of the balance, on the other hand, poses considerably fewer problems. Sectoral loan data can be obtained either from the macro-economic input/output tables or from the monetary authorities' statistics on borrowing. Differentiation of debts according to creditors (banks, family, suppliers) is, on the other hand, normally not possible and for this reason is not attempted in the following summary. Internal capital, a residual figure, can be distorted by outstanding financial obligations which should really be deducted. In so doing, we must not forget outstanding debts relating to previous periods and the latent tax claim on the difference between the valuation in the balance sheet drawn up for tax purposes and the liquidation value of the assets (excluding agricultural land).

Table 5

Liabilities and assets of agriculture in the EEC Member States<sup>1)</sup>

in national currency

BELGIUM

amounts in '000 million Belgian francs

<u>Assets</u>	<u>1960</u>	<u>%</u>	<u>1965</u>	<u>%</u>	<u>1969</u>	<u>%</u>	<u>1972</u>	<u>%</u>	<u>1973</u>	<u>%</u>
Land	233.8	69.6	373.6	69.7	441.7	68.7	366	70.2	386	70.0
Buildings	50.4	15.0	73.8	13.8	92.3	14.4	28	5.4	31	5.6
Livestock	31.1	9.3	54.2	10.1	69.2	10.8	85	16.3	91	16.4
Deadstock	10.8	3.2	16.9	3.1	24.2	3.7	20	3.8	21	3.8
Working capital	9.7	2.9	17.6	3.3	15.6	2.4	22	4.3	23	4.2
<b>TOTAL</b>	<b>335.8</b>	<b>100.0</b>	<b>536.1</b>	<b>100.0</b>	<b>643.0</b>	<b>100.0</b>	<b>521</b>	<b>100.0</b>	<b>552</b>	<b>100.0</b>
 <u>Liabilities</u>										
Leased land	158.1	47.1	259.8	48.5	307.1	47.8	259	49.7	278	50.4
Leased buildings	23.5	7.0	32.8	6.1	40.1	6.2	6	1.2	6	1.1
External capital	15.7	4.7	31.7	5.9	50.0	7.8	33	6.3	37	6.7
Long term							(20)	(3.8)	(22)	(4.0)
Short and medium term							(13)	(2.5)	(15)	(2.7)
Internal capital	138.5	41.2	211.8	39.5	245.8	38.2	223	42.8	231	41.8
<b>TOTAL</b>	<b>335.8</b>	<b>100.0</b>	<b>536.1</b>	<b>100.0</b>	<b>643.0</b>	<b>100.0</b>	<b>521</b>	<b>100.0</b>	<b>552</b>	<b>100.0</b>

1) Sources : Reports on agricultural credit in the EEC Member States

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DENMARK  
amounts in million kr

<u>Assets</u>	<u>1963</u>	<u>%</u>	<u>1968</u>	<u>%</u>	<u>1972</u>	<u>%</u>
Land	8.614	28.1	12.475	26.4	18.146	25.9
Buildings	12.921	42.1	22.177	46.6	32.259	46.0
Livestock	4.452	14.5	6.136	12.9	9.073	12.9
Deadstock	2.728	8.9	3.411	7.4	5.143	7.3
Working capital	<u>1.959</u>	<u>6.4</u>	<u>3.419</u>	<u>6.7</u>	<u>5.559</u>	<u>7.9</u>
TOTAL	30.674	100.0	47.618	100.0	70.180	100.0
<u>Liabilities</u>						
External capital	12.375	40.3	20.464	43.0	28.406	40.5
Long and medium term	(8.704)	(28.3)	(14.764)	(31.0)	(21.481)	(30.6)
Short term	(3.671)	(12.0)	( 5.696)	(12.0)	( 6.925)	( 9.9)
Internal capital	<u>18.229</u>	<u>59.7</u>	<u>27.158</u>	<u>57.0</u>	<u>41.774</u>	<u>59.5</u>
TOTAL	30.674	100.0	47.618	100.0	70.180	100.0

Table 5 continued

<u>FEDERAL REPUBLIC OF GERMANY</u>										
<u>amounts in '000 million DM</u>										
<u>Assets</u>	<u>1960</u>	<u>%</u>	<u>1965</u>	<u>%</u>	<u>1970</u>	<u>%</u>	<u>1972</u>	<u>%</u>	<u>1974</u>	<u>%</u>
Land	20.5	20.8	22.5	19.7	23.4	18.7	23.6	18.1	23.6	16.9
Buildings	41.6	43.0	45.4	39.7	49.6	39.6	51.1	39.1	51.7	37.1
Livestock	13.3	13.4	15.1	13.2	16.8	13.4	17.4	13.7	22.2	15.9
Deadstock	12.8	12.9	17.9	15.6	20.6	16.4	22.1	16.9	23.0	16.5
Working capital	10.8	10.9	13.5	11.8	14.9	11.9	15.9	12.2	19.0	13.6
TOTAL	99.0	100.0	114.4	100.0	125.3	100.0	130.1	100.0	139.5	100.0
<u>Liabilities</u>										
Leased land	4.5	4.6	5.7	5.0	6.8	5.2				
Leased buildings	3.2	3.2	3.5	3.1	4.0	3.1				
External capital	10.80	10.9	17.6	15.4	26.0	20.8	27.1	21.1	28.9	20.7
Medium and long term	(6.40)	(6.4)	(11.7)	(10.3)	(19.25)	(15.3)	(15.4)	(11.8)	(16.7)	(12.0)
Short term	(4.40)	(4.5)	( 5.8)	( 5.1)	( 6.8)	( 5.4)	(11.7)	( 9.3)	(12.2)	( 8.7)
Internal capital	80.50	81.3	87.71	76.7	88.6	70.7	103.0	78.9	110.6	79.3
TOTAL	99.0	100.0	114.4	100.0	125.3	100.0	130.1	100.0	139.5	100.0

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<u>IRELAND</u>									
<u>amounts in million £</u>									
<u>Assets</u>	<u>1963</u>	<u>%</u>	<u>1968</u>	<u>%</u>	<u>1972</u>	<u>%</u>	<u>1973</u>	<u>%</u>	
Land	773.2	60.1	1421.8	63.8	3858.2	70.2	4863.5	73.0	
Buildings	154.0	12.0	273.4	12.3	492.6	9.5	609.7	9.1	
Livestock	286.8	22.3	415.7	18.7	932.7	17.0	931.0	13.9	
Deadstock	44.1	3.4	73.5	3.3	137.4	2.3	141.2	2.1	
Working capital	29.4	2.2	43.4	1.9	75.7	1.0	128.8	1.9	
TOTAL	1287.5	100.0	2227.8	100.0	5496.6	100.0	6674.2	100.0	
<u>Liabilities</u>									
External capital	96.3	7.5	127.8	5.7	218.2	4.0	271.2	4.1	
Internal capital	1191.2	92.5	2100.0	94.3	5278.4	96.0	6403.0	95.9	
TOTAL	1287.5	100.0	2227.8	100.0	5496.6	100.0	6674.2	100.0	

Table 5 continued

<u>FRANCE</u>										
<u>Amounts in '000 million French francs</u>										
<u>Assets</u>	<u>1960</u>	<u>%</u>	<u>1965</u>	<u>%</u>	<u>1969</u>	<u>%</u>	<u>1970</u>	<u>%</u>	<u>1973</u>	<u>%</u>
Land	103.0	55.1	156.2	56.5	211.0	58.1	226.9	58.7	307.1	57.3
Buildings	15.0	8.0	24.0	8.7	36.0	9.9	40.0	10.3	56.0	10.5
Livestock	30.0	16.1	38.0	13.8	42.4	11.7	46.6	11.9	62.5	11.6
Deadstock	11.3	6.1	22.0	7.9	30.0	8.4	30.0	7.8	49.4	9.1
Working capital	27.5	14.7	36.4	13.1	43.2	11.9	43.9	11.3	60.8	11.5
TOTAL	186.8	100.0	276.6	100.0	362.6	100.0	387.4	100.0	538.8	100.0
<u>Liabilities</u>										
Leased land	45.0	24.1	70.9	25.6	88.1	24.3	100.0	25.8	130.0	24.3
Leased buildings	5.8	3.1	9.1	3.3	12.9	3.6	14.3	3.6	16.6	3.0
External capital	10.8	5.8	25.7	9.3	42.8	11.8	48.0	12.4	72.0	13.4
Medium + Long term	(6.5)	(3.5)	(17.0)	(6.1)			(35.3)	(9.1)	(50.6)	(9.4)
Short term	(4.3)	(7.3)	( 8.7)	(3.2)			(13.7)	(3.3)	(21.4)	(4.0)
Internal capital	125.2	67.0	170.9	61.8	218.8	60.3	225.1	58.2	317.2	59.3
TOTAL	186.8	100.0	276.6	100.0	362.6	100.0	387.4	100.0	535.8	100.0

<u>ITALY</u>										
<u>Amounts in '000 million Italian Lire</u>										
<u>Assets</u>	<u>1960</u>	<u>%</u>	<u>1965</u>	<u>%</u>	<u>1969</u>	<u>%</u>	<u>1970</u>	<u>%</u>	<u>1973</u>	<u>%</u>
Land	12.680	67.4	15.100	65.3	21.460	68.5	23.660	69.3	25.700	68.5
Buildings										
Livestock	2.550	13.6	2.920	12.6	3.310	10.6	3.230	9.5	3.517	9.4
Deadstock	820	4.4	1.090	4.7	1.340	4.3	1.510	4.4	1.620	4.3
Working capital	2.760	14.6	4.010	17.4	5.240	16.6	5.720	16.8	6.683	17.8
TOTAL	18.810	100.0	23.120	100.0	31.350	100.0	34.120	100.0	37.520	100.0
<u>Liabilities</u>										
Leased land	3.280	17.4	2.260	9.8	2.940	9.4	3.000	8.8	3.500	8.9
Leased buildings										
External capital	940	5.0	1.550	6.7	2.390	7.6	2.010	5.9	2.468	5.7
Long + medium term	(660)	(3.5)	(1.030)	(4.5)	(1.530)	(4.9)	(1.320)	(3.9)	(1.472)	(3.6)
Short term	(280)	(1.5)	( 520)	(2.2)	( 860)	(2.7)	( 690)	(2.0)	( 996)	(2.1)
Internal capital	14.590	77.6	19.310	83.5	26.020	83.0	29.110	85.3	34.652	85.3
TOTAL	18.810	100.0	23.120	100.0	31.350	100.0	34.120	100.0	40.620	100.0

Table 5 continued

ENGLAND and WALES  
in £ per agricultural holding

Assets	Leased			Owned			Mixed		
	1969	1972	1974	1969	1972	1974	1969	1972	1974
Land/Buildings in %	1.031 8.2	1.313 8.2	1.698 6.9	30.385 73.5	43.329 74.9	66.584 75.1	20.646 60.8	26.676 62.2	43.210 65.0
Livestock in %	6.009 47.8	8.549 53.3	13.168 53.8	5.850 14.2	8.255 14.3	13.314 15.0	7.148 21.0	9.443 22.0	13.837 20.8
Deadstock in %	3.390 27.0	3.599 22.4	5.017 20.5	3.037 7.3	3.346 5.8	4.439 5.0	3.710 10.9	3.963 9.2	4.974 7.5
Working capital in %	2.133 17.0	2.586 16.1	4.592 18.8	2.059 5.0	2.896 5.0	4.343 4.9	2.474 7.3	2.773 6.5	4.466 6.7
Total	12.563 100.0	16.047 100.0	24.477 100.0	41.331 100.0	57.826 100.0	88.600 100.0	33.969 100.0	42.855 100.0	66.487 100.0
<u>Liabilities</u>									
External capital in %	3.398 27.1	3.347 20.8	4.269 17.4	7.364 17.8	6.874 11.9	8.345 9.4	6.590 19.4	6.350 14.8	7.315 11.0
Long + medium term in %	(929) (7.4)	(710) (4.4)	(729) (3.2)	(4.554) (11.0)	(4.223) (7.2)	(3.768) (4.3)	(3.658) (10.8)	(2.953) (6.9)	(2.973) (4.5)
Short term in %	(2.469) (19.6)	(2.637) (16.4)	(3.477) (14.2)	(2.810) (6.8)	(2.651) (4.7)	(4.577) (5.2)	(2.932) (8.6)	(3.397) (7.9)	(4.342) (6.5)
Internal capital in %	9.166 72.0	12.700 79.2	20.207 82.6	33.967 82.2	50.952 (88.1)	80.255 90.6	27.379 80.6	36.505 85.2	59.171 89.0
Total	12.563 100.0	16.047 100.0	24.477 100.0	41.331 100.0	57.826 100.0	71.611 100.0	33.969 100.0	42.855 100.0	66.487 100.0

Table 5 continued

LUXEMBOURG										
Amounts in '000 million Luxembourg francs										
Assets	1960	%	1965	%	1969	%	1973	%	1974	%
Land	9.65	61.4	10.4	61.1	11.5	60.0	12.6	54.5	12.5	51.9
Buildings	2.50	15.9	2.6	15.3	2.8	14.6	3.8	16.4	4.2	17.4
Livestock	1.79	11.4	1.95	11.8	2.2	11.5	3.2	13.9	3.5	14.5
Deadstock	1.27	8.1	1.50	8.9	2.0	10.3	2.6	11.3	2.8	11.6
Working capital	0.5	3.2	0.5	2.9	0.7	3.6	0.9	3.9	1.1	4.6
TOTAL	15.71	100.0	17.0	100.0	19.2	100.0	23.1	100.0	24.1	100.0
Liabilities										
Leased land	3.15	20.1	3.69	21.7	4.5	23.3	4.9	21.2	5.1	21.2
Leased buildings	0.18	1.1	0.19	1.1	0.2	1.0	0.2	0.8	0.2	0.8
External capital	0.93	5.9	1.13	6.6	1.6	8.5	2.0	8.7	2.3	9.5
Long term							(1.2)	(5.2)	(1.4)	(5.8)
Short and medium term							(0.8)	(3.5)	(0.9)	(3.7)
Internal capital	11.45	72.9	11.99	70.6	12.9	67.2	16.0	69.3	16.5	68.5
TOTAL	15.71	100.0	17.0	100.0	19.2	100.0	23.1	100.0	24.1	100.0

THE NETHERLANDS										
Amounts in '000 million Dutch guilders										
Assets	1960	%	1965	%	1969	%	1972 <sup>1)</sup>	%	1973	%
Land/Buildings	13.33	60.0	20.46	63.3	25.56	67.1	27.5	58.4	30.9	58.9
Livestock	3.1	14.0	4.2	13.0	4.3	11.3	12.7	26.9	14.0	26.6
Deadstock	2.58	11.6	3.33	10.3	4.2	11.0				
Working capital	3.19	14.4	4.33	13.4	4.04	10.6	6.9	14.7	7.6	14.5
TOTAL	22.20	100.0	32.32	100.0	38.10	100.0	47.1	100.0	52.5	100.0
Liabilities										
Leased land + buildings	5.53	24.9	8.53	26.4	10.40	27.3	10.3	21.9	11.5	21.9
External capital	3.45	15.6	5.74	17.8	6.84	18.0	8.3	17.6	8.8	16.7
Long term							(6.7)	(14.2)	(7.1)	(13.5)
Short and medium term							(1.6)	(3.4)	(1.7)	(3.2)
Internal capital	13.22	59.5	18.05	55.8	20.86	54.7	28.5	60.5	32.2	61.4
TOTAL	22.20	100.0	32.32	100.0	38.10	100.0	47.1	100.0	52.5	100.0

1) Break in comparability.

Table 6

Assets and liabilities of agriculture in the EEC

Member States in millions of U.A. (1)

BELGIUM

<u>Assets</u>	<u>1960</u>	<u>1965</u>	<u>1969</u>	<u>1972</u>	<u>1973</u>
Land	4.666	7.472	8.834	7.320	7.720
Buildings	1.018	1.476	1.846	560	620
Livestock	622	1.084	1.384	1.700	1.820
Deadstock	216	338	484	400	420
Working capital	194	352	312	440	460
	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>
TOTAL	6.716	10.722	12.860	10.420	11.040
<u>Liabilities</u>					
Leased land	3.162	5.196	6.142	5.180	5.560
Leased buildings	470	656	802	120	120
External capital	314	634	1.000	660	740
Long term				(400)	(440)
Short and medium term				(260)	(300)
Internal capital	2.770	4.236	4.916	4.460	4.620
	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>
TOTAL	6.716	10.722	12.860	10.420	11.040

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DENMARK

<u>Assets</u>	<u>1976</u>	<u>1968</u>	<u>1972</u>
Land	1.137	1.646	2.394
Buildings	1.704	2.926	4.257
Livestock	587	809	1.197
Deadstock	360	450	678
Working capital	259	451	734
	<u>        </u>	<u>        </u>	<u>        </u>
TOTAL	4.047	6.282	9.260
<u>Liabilities</u>			
External capital	1.633	2.700	3.748
Long + medium term	(1.148)	(1.948)	(2.834)
Short term	( 484)	( 751)	( 914)
Internal capital	2.414	3.583	5.512
	<u>        </u>	<u>        </u>	<u>        </u>
TOTAL	4.047	6.283	9.260

(1) Conversion factor used in the Annual Statistical Yearbook published by the European Community.



Table 6 continued

FEDERAL REPUBLIC OF GERMANY

<u>Assets</u>	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1972</u>	<u>1974</u>
Land	4.881	5.625	6.393	6.448	6.448
Buildings	9.905	11.350	13.552	13.962	14.126
Livestock	3.167	3.775	4.508	4.754	6.066
Deadstock	3.048	4.475	5.628	6.038	6.284
Working capital	2.560	3.375	4.071	4.344	5.191
TOTAL	23.571	28.600	34.152	35.546	38.115
<u>Liabilities</u>					
Leased land	1.071	1.425	1.858		
Leased buildings	762	875	1.093		
External capital	2.571	4.400	7.104	7.404	7.896
Medium term	(1.524)	(2.950)	(5.246)	(4.208)	(4.563)
Short + long term	(1.048)	(1.450)	(1.858)	(3.197)	(3.333)
Internal capital	19.167	21.900	24.097	28.142	30.115
TOTAL	23.571	28.600	34.152	35.546	38.115

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IRELAND

<u>Assets</u>	<u>1963</u>	<u>1968</u>	<u>1972</u>	<u>1973</u>
Land	1.506	2.768	7.517	9.475
Buildings	300	531	958	1.186
Livestock	557	808	1.816	1.814
Deadstock	86	143	268	275
Working capital	55	85	147	251
TOTAL	2.504	4.335	10.706	13.001
<u>Liabilities</u>				
External capital	187	249	425	528
Internal capital	2.317	4.086	10.281	12.473
TOTAL	2.504	4.335	10.706	13.001

Table 6 continued

<u>FRANCE</u>					
<u>Assets</u>	<u>1960</u>	<u>1965</u>	<u>1969</u>	<u>1970</u>	<u>1973</u>
Land	20.863	31.638	40.743	40.870	55.274
Buildings	3.038	4.861	6.951	7.202	10.082
Livestock	6.076	7.697	8.187	8.282	11.163
Deadstock	2.288	4.456	5.793	5.401	8.822
Working capital	5.583	7.373	8.351	7.922	11.163
TOTAL	37.848	56.025	70.025	69.677	96.504
<u>Liabilities</u>					
Leased land	9.114	14.361	17.012	18.004	23.406
Leased buildings	1.184	1.843	2.491	2.521	2.881
External capital	2.197	5.216	8.274	8.642	12.963
Long term	(1.322)	(3.147)		(6.356)	(9.110)
Short and medium term	( 875)	(2.069)		(2.287)	(3.853)
Internal capital	25.353	34.605	42.248	40.510	57.254
TOTAL	37.848	56.025	70.025	69.677	96.504

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<u>ITALY</u>					
<u>Assets</u>	<u>1960</u>	<u>1965</u>	<u>1969</u>	<u>1970</u>	<u>1973</u>
Land	20.288	24.160	34.336	37.856	41.120
Buildings					
Livestock	4.080	4.672	5.296	5.168	5.627
Deadstock	1.312	1.744	2.144	2.416	2.592
Working capital	4.416	6.416	8.384	9.152	10.693
TOTAL	30.096	36.992	50.160	54.592	60.032
<u>Liabilities</u>					
Leased land	5.248	3.616	4.704	4.800	5.600
Leased buildings					
External capital	1.504	2.480	3.824	3.216	3.710
Long term	(1.056)	(1.648)	(2.448)	(2.112)	(2.320)
Short and medium term	( 448)	( 832)	(1.376)	(1.104)	(1.390)
Internal capital	23.344	30.896	41.632	46.576	50.722
TOTAL	30.096	36.992	50.160	54.592	60.032

ENGLAND and WALES

in U.A. per agricultural holding

Table 6 continued

	Leased			Owned			Mixed		
	1969	1972	1974	1969	1972	1969	1969	1972	1974
<u>Assets</u>									
Land/Buildings	2.474	3.151	4.075	72.924	103.989	159.609	49.503	64.092	103.704
Livestock	14.421	20.517	31.603	14.040	19.812	31.953	17.155	22.663	33.208
Deadstock	8.136	8.637	12.184	7.288	8.030	10.653	8.904	9.511	11.937
Working capital	5.119	6.206	10.882	4.941	6.950	10.423	5.937	6.655	10.718
Total	30.150	38.511	58.744	99.193	138.781	212.638	81.526	102.921	159.567
<u>Liabilities</u>									
External capital	8.155	8.032	10.245	17.673	16.497	20.028	15.816	15.240	17.556
Long + medium term	(2.229)	(1.704)	(1.903)	(10.929)	(10.135)	(9.043)	(8.779)	(7.087)	(7.135)
Short term	(5.926)	(6.328)	(8.342)	(6.744)	(6.362)	(10.985)	(7.037)	(8.153)	(10.421)
Internal capital	21.995	30.479	48.499	81.520	122.284	192.610	65.710	87.681	142.011
Total	30.150	38.511	58.744	99.193	138.781	212.638	81.526	102.921	159.567

Table 6 continued

LUXEMBOURG

<u>Assets</u>	<u>1960</u>	<u>1965</u>	<u>1969</u>	<u>1973</u>	<u>1974</u>
Land	193,0	208,0	230,0	252,0	250,0
Buildings	50,0	52,0	56,0	76,0	84,0
Livestock	35,9	39,0	44,0	64,0	70,0
Deadstock	25,4	30,0	40,0	52,0	56,0
Working capital	10,0	11,0	14,0	18,0	22,0
TOTAL	314,3	340,0	384,0	462,0	482,0
<u>Liabilities</u>					
Leased land	63,0	73,8	89,4	98,0	102,0
Leased buildings	3,8	3,8	4,0	4,0	4,0
External capital	18,5	22,6	32,6	40,0	46,0
Long term				(24,0)	(28,0)
Short and medium term				(16,0)	(18,0)
Internal capital	229,0	239,0	258,0	320,0	330,0
TOTAL	314,3	340,0	384,0	462,0	482,0

THE NETHERLANDS

<u>Assets</u>	<u>1960</u>	<u>1965</u>	<u>1969</u>	<u>1972</u>	<u>1973</u>
Land/buildings	3.682,3	5.651,9	7.060,7	7.994,2	9.275,1
Livestock	856,3	1.160,2	1.187,9	3.691,2	4.069,7
Deadstock	712,7	919,9	1.160,2		
Working capital	881,2	1.196,1	1.116,0	2.005,8	2.117,2
TOTAL	6.132,5	8.928,1	10.524,8	13.691,9	15.261,6
<u>Liabilities</u>					
Leased land + buildings	1.527,6	2.356,4	2.872,9	2.994,2	3.343,0
External capital	953,0	1.585,6	1.889,5	2.412,8	2.558,2
Long term				1.947,7	2.063,9
Short and medium term				465,1	494,3
Internal capital	3.651,9	4.986,1	5.762,4	8.284,9	9.360,4
TOTAL	6.132,5	8.928,1	10.524,8	13.691,9	15.261,6

In actual fact, holdings are thus partially financed by latent tax money still included in internal funds, since the extent of such tax money cannot be ascertained. Despite the limited nature of the data we shall nevertheless try to make an analysis of the financial position of agriculture. A comparison of the relative figures must, however, take into account that modernization and mechanization in agriculture, the combination or diversification of activities of agricultural undertakings in the primary (producing) and secondary (processing) areas and the ownership situation vary greatly from country to country. From the following survey it appears that external capital in agriculture has experienced a growth acceleration in the 1960s and thus far in the 1970s. The scale of the average annual growth ranged from 4.2% (Belgium) to 14.5% (France).

Growth of internal and external capital in agriculture  
(average per annum)

		<u>External capital</u>	<u>Internal capital</u>
Belgium	1962 - 1974	4.2%	3.6%
Denmark	1963 - 1972	8.6%	8.6%
Federal Republic of Germany	1960 - 1974	6.1%	2.5%
France	1960 - 1973	14.5%	6.9%
United Kingdom <sup>1</sup>	1960 - 1974	7.4%	14.6%
Ireland	1963 - 1973	9.9%	16.5%
Italy	1960 - 1973	6.7%	5.7%
Luxembourg	1960 - 1974	6.2%	2.4%
Netherlands	1960 - 1973	7.5%	7.1%

1) Bank credit as an indicator of external capital; internal capital - an average of the internal capital position of the owner and leasehold agriculturist for 1969 to 1973.

This increase in the nominal debt was coupled with an increasing rate of inflation in all the Member Countries. In real terms, however, the position has eased; in the UK and Italy even the nominal growth in the 1970s did not counterbalance inflation.

Table 7a

Internal capital : External capital

	<u>1960</u>	<u>1965</u>	<u>1969</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
Belgium '62	88 : 12	87 : 13	86 : 14	87 : 13	87 : 13	88 : 12
Federal Republic of Germany	88 : 12	83 : 17	77 : 23	79 : 21 <sup>1)</sup>	-	79 : 21
France	92 : 8	87 : 13	84 : 16	82 : 18	82 : 18	
Italy	94 : 6	93 : 7	92 : 8	93 : 7 <sup>1)</sup>	93 : 8	
Luxembourg	93 : 7	91 : 9	89 : 11	89 : 11	88 : 12	
Netherlands	79 : 21	76 : 24	75 : 25	77 : 23	79 : 21	

	<u>1963</u>	<u>1968</u>	<u>1972</u>
Denmark	60 : 40	57 : 43	60 : 40
Ireland	93 : 7	94 : 6	96 : 4

		<u>t</u>	<u>o</u>	<u>m</u>
U.K.	1969	73 : 27	82 : 18	81 : 19
	1972	79 : 21	88 : 12	85 : 15
	1974	83 : 17	90 : 10	89 : 11

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1) New time series

t = tenants

o = owners

m = mixed ownership position

Table 7b

Ratio of internal to external capital (structure coefficients)

	<u>1960</u>	<u>1965</u>	<u>1969</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
Belgium '62	7.4	7.0	6.3	6.5	6.7	7.0
Federal Republic of Germany	6.4	4.5	3.1	3.8 <sup>1)</sup>	-	3.8 <sup>1)</sup>
France	11.5	6.7	5.1	4.7	4.4	
Italy	15.5	12.5	10.9	14.5	13.7	
Luxembourg	12.3	10.6	8.1	8.0	7.1	7.2
Netherlands	3.8	3.1	3.1	3.4	3.7	
	<u>1963</u>	<u>1968</u>	<u>1972</u>	<u>1973</u>		
Denmark	1.5	1.3	1.5			
Ireland	12.4	16.4	24.2	23.6		
	<u>1969</u>			<u>1972</u>		<u>1974</u>
	t	o	m	t	o	m
U.K.	2.7	4.6	4.2	3.7	7.4	5.7
				4.7	9.6	8.0

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1) New time series

t = tenants

o = owners

m = mixed ownership position

Any assessment of the debt situation from this point of view only would produce a distorted picture. The nominal percentage growth of internal capital and assets as a whole in agriculture showed lower nominal growth percentages than external capital in every case except for the new member countries. In Denmark, Germany, France, Italy, Luxembourg and the Netherlands, the trend of internal funds continued to lag behind in agricultural credit activities. This disproportionate trend meant that the ratio of internal capital (I.C.) to outside capital (O.C.) in these countries shifted to the disadvantage of internal capital<sup>1)</sup>. Pronounced shifts in the capital structure took place in the agricultural sector in the Federal Republic of Germany from 88:12 in 1960 to 79:21 in 1974, in France from 92:8 to 82:18 and, to a lesser degree, in Belgium and Luxembourg, where the internal capital component was 87 and 88% respectively in 1973. In Dutch agriculture, where the self-financing basis in 1960 was modest in comparison with agriculture in other original EEC countries, the financial structure deteriorated until 1972 but has resulted in a positive development since then in respect of internal capital. The capital structure of agriculture also improved in the new Member States, particularly at the beginning of the 1970s. The increased contribution of internal capital was due particularly to the (book) value of (cultivated) land, which rose sharply in anticipation of the accession of these countries to the EEC. In interpreting the structure coefficients (see Table 7a, page 34), as a general rule the higher the ratio the stronger the financial position of the agricultural sector. It is not possible to say which ratio is the correct one without further information; this depends, inter alia, on the importance of the sector in the national economy and the type of occupancy of the land.

If the contribution by agriculture to the domestic product is high (and if a more stable turnover is ensured as a result), then agriculture can operate with a higher indebtedness since the regular income flow then facilitates the provision of funds for repayments and interest. In addition, a higher proportion of tenancy types of occupancy can distort the picture since the ratio of personal capital to outside capital relates to a smaller (ownership) basis and/or the lease is not included in the external capital in the case of leaseholdings.

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1) See survey 7a, page 34.



Table 8

Balance of agricultural structures

		Ratio of floating assets to floating debts	Ratio of long-term investments to internal capital	Ratio of long/short external capital
<u>Belgium</u>	1972	1.6	1.8	1.5
	1973	1.5	1.8	1.5
<u>Denmark</u>	1963	0.5	1.2	2.4
	1968	0.3	1.3	2.6
	1972	0.3	1.2	3.1
<u>Federal Republic of Germany</u>	1972	1.4	0.7	1.3
	1974	1.6	0.7	1.4
<u>France</u>	1970	-	1.2	-
	1973	-	1.1	-
<u>U.K.</u>	1969 (1)	0.9	0.1	0.4
	(2)	0.7	0.9	1.6
	(3)	0.8	0.7	1.2
	1973 (1)	0.9	0.1	0.2
	(2)	1.1	0.7	1.4
	(3)	0.7	0.8	0.7
<u>Italy</u>	1960	9.9	0.9	2.4
	1969	6.1	0.8	1.8
	1973	7.7	0.8	1.7
<u>Luxembourg</u>	1973	1.1	1.0	1.5
	1974	1.1	1.0	1.6
<u>Netherlands</u>	1968	4.4	1.1	4.0
	1973	7.2	1.0	4.2

(1) Tenants

(2) Owners

(3) Mixed ownership situation

The effect of the ownership situation on the relative figures is strikingly reproduced by the data relating to agriculture in the UK broken down by type of occupancy. The ownership conditions also determine the liquidity and capital investment in durable production means and participations within the agricultural sector. Where the lease is still highly represented, the debts will have primarily a short-term character. This means that for regular debt servicing the assets must also be of a floating nature. The ratio of long-term investments to internal capital can also be distorted by the ownership situation. The tenant does not generally invest for the long term but the limited extent may be disproportionate to his (limited) internal capital situation. These relationships which, when they come into practice, throw a favourable light on the management of an (agricultural) undertaking, are again strikingly reflected by the type of occupancy of agriculture in the UK. In the case of tenancies the debts are of an extremely short-term character. Approximately 80% of the debts are short-term credits while the figure is only 40% in the case of freehold farms. The tenant farmer's assets are indeed floating. Only 8% of the assets are long-term investments while working capital and livestock - assets having a high degree of liquidity - make up about 70% of the assets. Owner farmers, on the other hand, keep 75% of their assets in the form of land and buildings.

Despite government backing measures (which will be discussed below), the upward trend of the capital market interest rates has resulted in some easing off of agricultural demand for long-term credits in the 1970s<sup>(1)</sup>. With the exception of agriculture in the Netherlands and Denmark, where the demand for long-term funds increased, the external capital structure shifted to the short-term side during the period from 1969/1970 to 1973/1974. This movement had already started at the beginning of the 1960s in Italy. It is not possible to say at this stage whether this development has a negative influence on the continuity of the agricultural undertaking. What is true is that the financial obligations cannot be staggered as satisfactorily, so that the sensitivity to the burden of debts increases (subjectively). It is not possible at this stage to determine the indebtedness of agriculture objectively. Apart from the dividing line between short term, medium term and long-term credit, which differs from country to country, it is possible, for example, that the concentration on short-term debts is coupled with an agricultural cash flow growth stimulated by inflation.

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(1) see table 9, page 39.

Table 9

External capital structure (short and long term credits  
as % of external capital)

Belgium	<u>1960</u>	<u>1965</u>	<u>1969</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>			
- long term				61	60	59			
- short and medium term				38	40	41			
Federal Republic of Germany	<u>1960</u>	<u>1965</u>	<u>1969</u>	<u>1970</u>	<u>1971</u> <sup>1)</sup>	<u>1972</u>	<u>1973</u>	<u>1974</u>	
- long	59	67	74	77.5	77.0	76.7	76.5	76.4	
- medium				4.1	4.1	4.1	4.0	3.8	
- short	41	33	26	18.4	18.9	19.2	19.5	19.8	
<u>Denmark</u>	<u>1963</u>	<u>1968</u>	<u>1972</u>						
- medium + long	70.3	72.1	75.6						
- short	29.7	27.9	24.4						
<u>France</u>	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1973</u>					
- long	50.3	57.7	63.0	62.4					
- medium	12.7	10.8	11.0	10.3					
- short	37.0	31.5	26.0	27.3					
<u>Italy</u>	<u>1960</u>	<u>1965</u>	<u>1969</u>	<u>1970</u>	<u>1973</u>				
- medium + long	70.2	66.5	64.0	65.7	63.2				
- short	29.8	33.5	36.0	34.3	36.8				
<u>Luxembourg</u>	<u>1973</u>	<u>1974</u>							
- long	60	61							
- short + medium	40	39							
<u>Netherlands</u>	<u>1963</u>	<u>1968</u>	<u>1972</u> <sup>1)</sup>	<u>1973</u>					
- medium + long	78	80	81	81					
- short	22	20	19	19					
<u>U.K.</u>	<u>1969</u>			<u>1972</u>			<u>1973</u>		
	<u>t</u>	<u>o</u>	<u>m</u>	<u>t</u>	<u>o</u>	<u>m</u>	<u>t</u>	<u>o</u>	<u>m</u>
- medium + long	27.3	61.8	55.5	21.2	61.4	46.5	19.0	58.4	42.2
- short	72.7	38.2	44.5	78.8	38.6	53.5	78.8	41.6	57.8

1) New time series

t = tenant

o = owner

m = mixed ownership situation

In such cases there is no increase in the effective indebtedness. In addition, inflation which is rampant everywhere reduces the nominal indebtedness. It is also likely that the increased improvement and modernization activities of the 1960s will now have a fruitful effect on productivity and efficiency of agricultural undertakings. Investments made at that time may now result in a disproportionate increase in agricultural incomes. Since at that time it was possible to attract money at low rates which have not kept pace with inflation, or else only after some years and even then only partially, there could be a reduction of the indebtedness situation for this reason as well.

However, the indebtedness position of the agricultural sector should above all be assessed against a background of the utilization of cultivated land - intensive or extensive agriculture - the degree of technology, and the productivity of agriculture in the EEC Member States, *inter alia*.

It is important to distinguish in which stage of the macro-economic production function national agriculture is<sup>1)</sup>. If agricultural production is passing through the stage of increasing returns of scale, the intensified utilization of the input factors labour, capital and - considered dynamically - technological advance, may increase the production returns disproportionately. The utilization of one additional unit of external capital may result in an increase in credit volume, but does not result proportionally in an increase in indebtedness since the returns do not increase excessively. If, on the other hand, (national) agricultural production is in a growth-neutral stage, additional production factors may increase production only proportionally. If, however, national agricultural production has reached the stage of decreasing returns of scale, then the increased utilization of these factors can increase production only sub-proportionally. Depending upon the expense of the production factors and the method of technological advance (labour-saving, capital-saving and neutral technical advance), then attraction of external capital may result in the (excessive) increase in indebtedness. The allocation of national agriculture in a specific stage of the production function should not be misinterpreted.

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1) Economic theory makes a distinction here particularly between the Cobb-Douglas production function and the Constant Elasticity Substitution production function.

The starting position is determined by external influences such as climate, nature of soil, labour potential, labour quality, and also capital potential, for example, whether financial sources (banking and the private sector) are plentiful and are inclined to invest in agriculture so that technological advance can be stimulated and utilized to achieve a higher stage of the production function or to revert from a stage of decreasing returns of scale to a stage of increasing returns of scale.

In addition, labour potential can induce the authorities to stimulate or restrain depth investments.

Of course, it is problematic to place the entire agricultural sector in such stages of the production function. It is also possible (and a fact) that agricultural undertakings of a national agriculture are at different stages of the production curve. Despite this form of arbitrariness, it does not appear to be unreasonable to regard agriculture in Italy and Ireland as being in the first (dynamic) growth stage, agriculture in Belgium, France and the UK in the second stage and agriculture in Denmark, Germany, Luxembourg and the Netherlands at the threshold of the third stage. Some support for the systematization can be found in a comparison of the parameters "gross production per hectare" and "credits per hectare" of cultivated land - as indicators of the productivity and indebtedness of a country's agriculture - both expressed in European units of account (ua) (see table 11, page 44)

Table 11 shows that taking statistical distortion into account agriculture in the Netherlands has the best production result per hectare, followed by Belgian and German agriculture. The considerable volume growth in the 1970s is striking, having been achieved with a lagging increase in external capital. This applies incidentally even if the entire period under review is taken into consideration. This is in contrast to the situation in France and the Federal Republic of Germany, where debts per hectare expanded more than gross production <sup>1)</sup>. Disregarding agricultural production in the UK, the force of which is probably distorted by the short period under review, agricultural production in Italy and France showed the greatest progress. In Italy, where the starting basis was narrowest, it was possible to achieve considerable expansion - an average of 9% per annum - with a strong but nevertheless lagging growth in the debt position, 8.3% per annum.

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<sup>1)</sup> see table 10 page 42.

Table 10

Annual Growth of gross production and agricultural credit per hectare

		<u>Gross product</u>	<u>Agricultural credit</u>
Belgium	1962 - 1974	6.95%	4.90%
Federal Republic of Germany	1960 - 1972	5.30%	7.32%
Denmark			-
France	1960 - 1973	6.03%	12.93%
U.K.	1970 - 1973	13.85%	10.31%
Italy	1960 - 1973	8.99%	8.29%
Luxembourg	1960 - 1973	5.32%	6.00%
Netherlands	1960 - 1973	8.18%	8.10%

French agriculture, on the other hand, achieved the production increase - an average of 6% - with extensive growth in the credits taken up, average 13%. The relationship between production and credits per hectare experienced a considerable deterioration here as well. As a result of the still relatively low external capital financing in the 1960, the ratio in that year both in France and Italy was still 3.5. That means that 3 1/2 gross units of production were available per one unit of credit. The increased call on external capital in subsequent years caused this ratio to drop in French agriculture to 1.5 in 1973. The fall in the ratio was not so pronounced in agriculture in the other Member States where (external) capital intensity was already at a higher level at the start of the period under review. It is striking that the production/credit ratio in various countries has shown a clear improvement in recent years. This can probably be interpreted as a first indication of the effects of the increased improvement and modernization efforts in the 1960s, although a distortion due to new time series cannot be excluded. The investments made at that time created the basis for the increased utilization of technological advance in agriculture and this has manifested itself after a period of adaption. Moreover, in recent years the trend to joint (co-operative) machinery ownership and joint processing and marketing of products is clearly visible and, as a result, productivity of agriculture can be increased without an excessive increase in the indebtedness of the individual undertaking.

Although the absolute extent of agricultural credit has increased, the "load" of indebtedness appears recently to have lost weight when considered in this way. This aspect finds support in the ratio of assets to external capital per hectare (Table 14, page 48)

If this ratio shifts in 'favour' of external capital (and hence to the disadvantage of the balance-complementary factor personal capital), a higher effective debt position can be deduced. Except for agriculture in the new Member States, where this ratio has developed to the advantage of assets (and internal capital) as a result of the higher valuation of the land after accession, the ratio of assets to external capital really did shift in the direction of external capital in the period under review. In the 1970s, however, the capitalization of assets by external capital declined in numerous countries.

Table 11

Gross agricultural production and agricultural credits per hectare in u.a.

		(I)	(II)	I/II
		Gross product	Credit	
Belgium	1962	716	244	2.93
	1963	871	328	2.66
	1969	1.126	416	2.71
	1972	1.399	430	3.25
	1973	1.612	467	3.45
	1974	1.570	484	3.24
Denmark	1972	755.1	1.262.1	0.60
Federal Republic of Germany	1960	451.4	220.5	2.05
	1965	597.5	343.8	1.74
	1970	716.0	559.3	1.28
	1972	883.6	614.9	1.44
	1974	1.011.6	613.7	1.60
France	1960	257.4	72.7	3.54
	1965	347.9	173.2	2.01
	1969	392.4	259.0	1.51
	1972	534.4	291.3	1.83
	1973	636.3	436.5	1.45
U.K.	1970	298.0	89.1	3.34
	1973	500.7	131.8	3.80
Italy	1960	238.0	68.6	3.47
	1965	388.2	115.8	3.35
	1969	460.0	180.4	2.55
	1970 <sup>1)</sup>	480.2	166.3	
Luxembourg	1960	313.7	133.0	2.36
	1965	416.1	167.4	2.49
	1969	457.9	239.4	1.91
	1973	646.6	300.8	2.15
Netherlands	1960	750.8	417.9	1.80
	1965	1.044.8	704.7	1.48
	1969	1.303.3	874.7	1.49
	1971	1.582.4	1.037.6	1.52
	1973	2.256.4	1.152.2	1.96

Source: Production figures Inter alia from the Community Yearbook of Agricultural Statistics. Credit figures from the Reports on agricultural credit in the different Member States.

1) New time series



External capital

Countries/ year	Million hectares	<u>In national currency</u>		<u>In units of account</u>	
		External capital <sup>3)</sup>	External capital per hectare	External capital <sup>3)</sup>	External capital per hectare
Belgium		BF	BF		
1962	1.70	20,7	12.212	0.414	240,0
1965	1.66	27,2	16.045	0.544	328,0
1969	1.61	33,5	20.808	0.670	416,0
1972	1.58	33,9	21.497	0.678	430,0
1973	1.57	36,6	23.362	0.732	467,0
1974	1.55	37,6	24.206	0.752	484,0
Denmark		D.kr.	D.kr.		
1963	3.10	12,38	3.992	1,792	577.0
1968	3.00	20,46	6.821	2,728	909.5
1972	2.97	28,41	9.564	3,749	1.262.1
Federal Republic of Germany		DM	DM		
1960	12.9	11,95	.926	2,8451	220.5
1965	12.8	17,60	1.375	4,4000	343.8
1970	12.7	26,00	2.047	6,7104	559.3
1972	12.6	27,10	2.151	7,7451	614.8
1974	12.5	28,90	2.312	7,8962	631.7
France		FF	FF		
1960	30.2	10,85	.359	2,1976	72.7
1965	30.1	25,75	.855	5,2156	173.2
1969 <sup>1)</sup>	29.9	42,85	1.433	8,2741	259.0
1972 <sup>1)</sup>	29.5	48,00	1.618	8,6421	291.3
1973 <sup>2)</sup>	29.7	72,00	2.424	12,9636	436.5
U.K. <sup>2)</sup>	(millions)	£	£		
1960	19.201	416.6	21.70	1,166	60.8
1967	19.00	643.0	33.84	1,543	81.2
1970	18.83	689.3	37.14	1,676	89.1
1973	18.63	1.022.7	54.90	2,454	131.8
1974	18.60	1.220.8	65.63	2,930	157.5

Table 12 continued

Countries/ year	In national currency		In units of account		
	Million hectares	External <sup>3)</sup> capital £	External capital per hectare	External <sup>3)</sup> capital	External capital per hectare
Ireland	(millions)	£	£		
1963	4.72	96.3	20.40	0,270	57.1
1968	4.78	127.8	26.74	0,306	64.2
1972	4.81	218.2	45.36	0,524	108.9
1973	4.84	271.2	56.02	0,651	134.4
Italy		L	L		
1960	21.9	.940	42.920	1,504	68.6
1965	21.4	1.550	72.427	2,480	115.8
1969 <sup>1)</sup>	21.2	2.390	112.735	3,824	180.4
1973	20.4	2.319	113.676	3,722	182.45
Luxembourg		Lfr	Lfr		
1960	0.139	0,925	6.650	0,0185	133.0
1965	0.135	1,130	8.370	0,0226	167.4
1969	0.136	1.628	11.970	0,03256	239.4
1973	0.133	2,000	15.038	0,0400	300.8
1974	0.132	2,300	17.424	0,0460	348.5
Netherlands		f1	f1		
1960	2.28	3,45	1.513	0.9530	417.9
1965	2.25	5,74	2.551	1.5856	704.7
1969	2.20	6,84	3.109	1.8895	874.7
1971	2.21	8,30	3.756	2.2928	1.037.6
1973	2.11	8,80	4.171	2.4310	1.152.2

- 1) break in comparability  
2) bank credits and mortgage  
3) in '000 million

Table 13

Assets

		In national currency		In units of account	
Countries	Million hectares	Assets 1)	Assets per hectare	Assets 1)	Assets per hectare
Federal Republic of Germany		DM	DM	in u.a.	in u.a.
1960	12.9	95,50	7.403	22,738	1.762
1965	12.8	112,80	8.812	28,200	2.203
1969	12.7	122,50	9.645	31,103	2.449
1972	13.4	139,10	9.709	36,392	2.716
1974	12.5	139,50	11.160	43,325	3.466
France		FF	FF		
1960	30.2	186,86	6.187	37,848	1.253
1965	30.1	276,60	8.902	56,025	1.803
1969	29.9	362,65	12.128	70,025	2.341
1972	32.7	387,00	11.835	69,677	2.130
1973	32.5	536,00	16.492	96,504	2.969
Italy		L	L		
1960	21.9	18.810	858.803	30,096	1.374
1965	21.4	23.120	1.080.373	36,992	1.728
1969	21.2	31.350	1.478.773	50,160	2.366
1970	19.4	34.230	1.758.763	54,600	2.814
1973	17.8	37.520	2.107.865	59,429	3.338
Netherlands		f1	f1		
1960	2.28	22,20	9.736	6,133	2.689
1965	2.25	32,32	14.365	8,928	3.968
1969	2.10	38,10	17.318	10,525	4.872
1972	2.21	47,10	21.312	13,692	6.195
1973	2.11	52,50	23.758	15,262	6.906
Belgium		BF	BF		
1962	1.70	391.9	231.197	7,838	4.624
1965	1.66	492.3	296.912	9,896	5.938
1969	1.61	564,2	350.448	11,284	7.009
1972	1.58	520,9	330.318	10,418	6.606
1973	1.57	566,5	361.594	11,330	7.232
1974	1.55	600,4	386,517	12,008	7.730
Luxembourg		Lfr	Lfr		
1962	0.139	15,71	113.021	0,314	2.260
1965	0.135	17,00	125.926	0,340	2.518
1969	0.136	19,20	141.176	0,384	2.823
1973	0.133	23,10	173.684	0,475	3.571
1974	0.132	24,10	182.576	0,495	3.750
Denmark		D.kr.	D.kr.		
1963	3.10	30,67	9.894	4,440	1.432
1968	3.00	47,62	15.873	6,349	2.116
1972	2.97	70,18	23.630	9,260	3.117
Ireland		£(Millions)	£	(millions)	
1963	4.72	1,287	272.80	3,603	.763
1968	4.78	2,228	466.11	5,347	1.118
1972	4.81	5,497	1.142.83	13,192	2.742
1973	4.84	6,674	1.378.93	16,017	3.309

1) in '000 million

Table 14

Assets - external capital per hectare (in u.a.)

		Assets I	External capital II	II/I
Belgium	1960	4.624	244.0	0.053
	1965	5.938	328.0	0.055
	1969	7.009	416.0	0.059
	1972 <sup>1)</sup>	6.606	430.0	0.065
	1973	7.232	467.0	0.065
	1974	7.730	484.0	0.063
Denmark	1963	1.432	578.0	0.40
	1968	2.116	909.5	0.43
	1972	3.117	1.262.1	0.40
Federal Republic of Germany	1960	1.762	220.5	0.13
	1965	2.203	343.8	0.156
	1969	2.449	551.7	0.225
	1972	2.716	614.8	0.23
	1974	3.466	631.7	0.18
France	1960	1.253	72.7	0.058
	1965	1.803	173.2	0.096
	1969	2.341	259.0	0.111
	1973 <sup>1)</sup>	2.969	436.5	0.147
Ireland	1963	.763	57.1	0.075
	1968	1.118	64.2	0.057
	1972	2.742	108.9	0.040
	1973	3.309	134.4	0.041
Italy	1960	1.374	68.6	0.05
	1965	1.728	115.8	0.067
	1969	2.366	180.4	
	1973 <sup>1)</sup>	3.338	182.5	0.055
Luxembourg	1960	2.260	133.0	0.059
	1965	2.518	167.4	0.066
	1969	2.823	239.4	0.085
	1973	3.571	300.8	0.080
	1974	3.750	348.5	0.093
Netherlands	1960	2.689	417.9	0.155
	1965	3.968	704.7	0.178
	1969	4.872	874.7	0.180
	1973	6.906	1152.2	0.167

1) break in comparability

It does not necessarily follow from this that external financing stagnated. It is quite feasible that inflation here and there caused the value of assets to rise more rapidly than the book value of credits granted to agriculture. It is therefore hardly possible for this reason to speak of any "aggravation" of the burden of indebtedness. It is also difficult to determine the weight because repayment terms vary from country to country, as do effective interest rates (whether or not subsidized). A survey of published interest rates shows that the development of interest rates lags behind the development of the returns from agricultural products. Debt servicing is also favoured to an increasing degree by the increasing income flow. To summarize, it may therefore be stated that the debt position of agriculture in the EEC Member States has undergone a considerable expansion but increased productivity and higher valuation of assets as a result of inflation, and extra returns in agriculture, have meant that it is not possible to conclude that the effective indebtedness burden has been aggravated.

#### A.3. Government influence on availability and granting of agricultural loans

In the Member States of the Community both quantitative and qualitative government support to agricultural lending have undergone some changes as a result of the economic and, particularly, inflationary trends in recent years. At the beginning of the 1970s the supply and price of agricultural loans were still not subject to restrictive government policy. This policy now appears to have come to an end. Government restrictive measures now apply also to the agricultural sector.

In Belgium in 1972 it was agreed between the National Bank and the other banks that these banks should deposit an interest-free reserve with the National Bank in proportion to funds deposited with them. About the end of 1973 and the beginning of 1974 the restrictive effect of this "gentlemen's agreement" was strengthened by the introduction of a penalty deposit on loans which exceeded the agreed increase per period. When this agreement was renewed in July 1974 not only were the permissible growth percentages for loans reduced but the scope of the agreement was extended to cover all financial institutions including the "Institut National de Crédit Agricole" (INCA) (National Agricultural Credit Institute). Thus the special status of the INCA was ended. On the other hand, qualitative government aid for agricultural loans remained.

The "Fonds d'Investissement Agricole" (FIA) (Agricultural Investment Fund) will continue to grant an interest subsidy (in 1971 the maximum was increased from 3% to 5%) and a limited guarantee, inter alia, on behalf of loans for the purchase of land and buildings and the modernization of existing holdings.

In 1973 in Denmark the authorities applied existing loan ceiling regulations to the whole of agricultural short-term lending facilities by extending the application of bank legislation to cover savings banks. Since then agricultural short-term lending has also been limited by the growth percentages from all loans agreed between the National Bank and the financial institutions. (Long-term) financing of agriculture had already been affected by the introduction of the "mortgage credit act" (1970). This Act encouraged mergers between institutions providing first and second mortgages. One important aspect of this reorganization of mortgage lending was the drastic curtailing of the repayment period and the fixing of mortgage limits. As regards mortgage loans to agriculture it was laid down that the loan might not exceed 50% of the value of the object to be financed and that the repayment period might not exceed 30 years. The "Mortgage Credit Act" at present applies to three Mortgage Credit Associations which grant mortgages to agriculture: the Kreditforeningen Danmark for the Danish mainland, the Forenede Kreditforeninger covering the Danish islands and the Jyllands Kreditforening for Jutland. The Dansk Landbrugs Realkreditfond established in 1960 which grants loans up to 70% of the value of the object to be financed, inter alia, for the purchase of holdings by new farmers, for the construction of farm buildings, for the purchase of materials and for the improvement of farmland is not subject to this Act. Direct subsidies and so-called "soft-loans" are granted by the State for the establishment of holdings in special development areas in Jutland. The agricultural co-operatives - unless they are similarly operating in these special areas - enjoy no special rights in Denmark. Direct government influence on agricultural loan interest rates is minimal in Denmark. The current market rate applies to a total 97% of agricultural loans.

In the Federal Republic of Germany There is a wide variation in direct and indirect government intervention in the supply and price of agricultural credit. Since agricultural credit is an integral part of the entire credit system, all measures taken by the government and monetary authorities automatically affect agricultural credit. This concerns both solvency requirements in respect of, and supervision over, the banking system as set forth in the "Gesetz über das Kreditwesen" (The Credit Act), and on the monetary control system (discount, minimum reserve and open market policy) which also affect the availability and level of interest rates in respect of agricultural credit. In addition, government action aimed more specifically at agricultural credit takes place on a large scale. Depending on the intended purpose, subsidies or interest refunds are granted to reduce interest charges on funds raised on the capital market, or else loans are granted at low or lower rates of interest from the current budgets. The rich variety of forms and conditions of backing provided for agriculture requires some enumeration. Under the credit charges reduction measures which have been operative since 1974 (adoption of the EEC guide lines 159/72), acquisition, land reallocation, erection, the construction of farming units and dwellings, and irrigation in agriculture have been supported. Credits are provided with an interest refund (recently 5% per annum) for a maximum of 20 years depending upon the purpose for which they are intended. The credit proportion to be subsidized in these conditions amounts to  $66 \frac{2}{3}$  per cent<sup>1)</sup> of the total investment expenditure. Since 1958 interest subsidies have also been granted on funds raised in the capital market by agriculture for the transfer of holdings, irrigation and land-reallocation. Interest subsidies are also provided for credits for investments for the promotion of the adaptation of agriculture to the Common Market and interest subsidies are still granted on investments to improve and modernize agriculture and investments for improving the structure of the markets for agricultural products.

In France, too, monetary and taxation policy on agricultural lending is undergoing changes. The "Caisses de Crédit Agricole" are now also subject to the regulations concerning compulsory reserves based on funds deposited with them and compulsory reserves based on the total loans made and the increase in these loans, which were introduced in 1967 to replace the existing liquidity reserve regulations.

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1) In 1970 the budget figure available for this was DM 348 million.

In addition the agricultural banks must also seek permission before granting substantial loans (exceeding FF 200 000) and submit the relevant documents for approval to the Caisse Nationale de Crédit Agricole which performs the same function vis-à-vis the regional banks as the Banque de France vis-à-vis the general banks. The availability and price of long-term agricultural loans are largely State controlled. By controlling the rate of issue and supervising the market the Government not only influences the scope of the activities of these Government institutions but also interest rates on the capital market. Interest on short and medium-term credits is to a great extent fixed by the Government by fixing maximum interest on deposited money.

The publication of the paper "Competition and Credit Control" in 1971 also heralded a period of direct monetary policy in the United Kingdom. The banks were obliged to keep a daily minimum reserve of 12.5% of their "eligible liabilities". They were also regularly requested by the Bank of England to exercise more restraint in granting loans. Later, at the end of 1973, a penalty deposit by the banks with the Bank of England was required whenever the interest-bearing balances with the banks exceeded a permissible increase. In this way the financial authorities directly influenced the credit basis of the banks. Agriculture remained throughout this period a priority lending area and there was nothing in these restrictions that would affect directly the amount of bank credit made available to agriculture.

Another measure affecting the development of interest levels in the United Kingdom in addition to government recourse to the financial markets was the linking of the minimum lending rate to the Treasury bill rate in the autumn of 1972. Besides this monetary approach the Government also exerts influence in other ways on the supply of funds for agriculture. This is done by means of fiscal facilities (investment allowances), namely the "Farm Capital Grant Scheme". Agriculturists whose investment plant come into consideration for government support can, after approval of such plans, enjoy grants under these regulations to a maximum of 25% of the amount to be invested, and even a maximum of 60% in the case of drainage investments. Certain investments, e.g. livestock, machinery and improvements to farmland, are subsidized up to 10%



In addition, the borrower can file an application for a government guarantee with two specialized institutions, the Agricultural Credit Corporation (ACC) and the Agricultural Finance Corporation (AFC). The banks participate in this guarantee agreement by taking over 5% of potential losses. The rest of the risk is assumed by the Ministry of Agriculture and these two institutions approximately in a 3:1 ratio (1975).

In Ireland the Central Bank Act of 1971 replaced quantitative credit control by the liquidity reserve as a method of limiting credit growth. At the same time provision was made for the imposition of a penalty interest supplement on re-discounting under excessive credit granting. Similar regulations were later imposed on the non-associated banks (which cannot call on the Central Bank). At the same time the Act of 1971 laid down that current account loans must be repaid within one year (previously the repayment period was unlimited and as a result difficult to control). Longer-term loans had henceforth to be fixed contractually as regards their repayment period and interest.

At the same time this measure made it possible to introduce a differentiated interest system: the AAA rate for government loans, the AA rate for agricultural and industrial loans and the A rate for private loans. The difference between the various rates of interest is about 3/4 - 1% in the order listed above. The interest on deposits is fixed by the Associated Banks in consultation with the Central Bank. In order to encourage capital accumulation the Government declared part of the income on accounts free of tax. However, the Government has introduced no special measures to attract funds for agriculture, although the money invested with the Agricultural Credit Corporation is guaranteed by the Government. Until the introduction of the "Farm Modernization Programme" under the EEC guidelines 159/1972, the Government granted subsidies (grants) for about 20 years for improving productivity in agriculture (drainage, machinery and the building and modernization of farm buildings). In addition to existing facilities for small agricultural undertakings - for the building of dwellings - government backing is now aimed at facilities for the purchase of new agricultural undertakings by agriculturists who are already active: the farmer can open credits to a maximum of three times the value of his existing holding, these credits being granted by the government and having a maximum term of 35 years with interest subsidies in the initial stage (two-and-a-half years).

There are also credit facilities for the construction or reconstruction of dwellings. Subsidies in the form of "soft" loans are not granted in principle although an interest subsidy was introduced in respect of loans for the financing of specific projects (e.g. livestock) during the period from June 1972 to March 1974. Besides this the Agricultural Credit Corporation and the Associated Banks make available special loans for the purchase of artificial fertilizer at an interest rate of 1% below the market level. In the other Member States, credit in Italy in recent years has been marked by intensified anti-inflation action by the Banca d'Italia.

In order not to jeopardize structural changes in agriculture as a result of shortage of funds and upward interest rates, government backing action was aimed mainly at making funds available to agricultural credit institutions for medium and long-term credit granting at reduced interest rates. This is very important because under Italian bank legislation not every banking institution can grant agricultural credits. The supply of agricultural credit is also determined by the personal capital basis of the banking institutions in question and by their facilities for raising funds on the capital market. The latter refinancing facility is said to make agricultural credit subject to the supply of the capital market and fluctuations in the capital market interest rate. In order to provide agriculture with a regular flow of credit and protect it from interest fluctuations, active government intervention is required and this takes place either by allocating budget revenue to the institutions in question or by issuing State-guaranteed bonds on these institutions.

In addition to this support to institutions which, as a result of regional or communal restriction of their activities, experience difficulties in broadening their personal capital basis and in attracting external funds, the government grants interest subsidies on medium-term agricultural credits (up to five years) for increasing working capital, for the purchase of equipment, for improving the marketing of agricultural products, and on long-term loans (up to 30 years) for setting up and improving agricultural holdings. The government also grants guarantees (usually up to 60 - 66% of the mortgage value) for loans for the purchase of cultivated land and modernization investments.

In Luxembourg, too, banking was in 1965 made subject to closer government scrutiny by the "Commissariat du Contrôle des Banques" (CCB). Since then banks have been obliged not only to give notice of business as they were before, but also to ensure a reserve.

The Government exerts limited influence on the trend of interest rates in Luxembourg. It is true that the Government via its bank, the "Caisse d'Epargne de l'Etat", which deals with all the State's financial transactions, can exert direct influence upon the capital market, but developments on the money and capital market are not disturbed by State intervention. Agricultural borrowers experience some relief in the form of interest subsidies and loan subsidies on credits granted by the banks. The Ministry of Agriculture decides whether these subsidies should be granted. Loan subsidies are granted under the 1965 Agricultural Guidance Act for the purchase of agricultural machinery and for restructuring operations. Interest subsidies are granted on loans for the purchase of holdings and for the modernization of existing holdings. The subsidy rate is now 4%

Besides this the Government bears the cost of land re-parcelling, the compensation and superannuation of elderly farmers and the premium for early retirement from farming. At the same time it subsidizes farmworkers' housing. By means of taxation measures, in particular tax allowances, the Government also supports investment in agriculture.

In the Netherlands the influence of the financial authorities on the granting of loans by the Commercial Banks and the Agricultural Credit Banks was strengthened in mid-1973 by a system of indirect credit control. Under this system the banks are required to observe a liquidity commitment which amounts to a percentage of the average level of short or long-term funds deposited with them. By varying the liquidity requirement the Nederlandsche Bank strengthened its hold upon the credit operations of the banks. Beside the availability of loans, the Central Bank also influences the demand for loans by varying the rate of interest by the classical method of discount and open market policy. Apart from this the Government has no special influence upon agricultural lending; the agricultural credit institutions are subject to no other rules or regulations than the remaining banking institutions.

Indeed, the Government helps to finance agriculture in other ways, on the one hand by direct loans to agriculture (the Government acts as banker) in connection with reparable operations, and on the other hand by creating four institutes whose task is to ease difficulties arising in relation to financing operations. Through the "Borgstellingsfonds voor de Landbouw" (Agricultural Guarantee Fund) the Government stands guarantee for the payment of interest and repayment of financial loans granted to farmers by banks. Through the "Ontwikkelings- en Saneringsfonds voor de Landbouw" (Agricultural Development and Reorganization Fund) the Government provides financial compensation for the closure of a farm (reorganization) or encourages its modernization and reconstruction by an interest subsidy system and a system of grants. The "Stichting Beheer Landbouwgronden" (Agricultural Land Control Foundation) buys agricultural land and the buildings erected thereon, administers them and resells them. The "Grondbank" (Land Bank) comes under the control of the Foundation. The aim of this body is to ease the financial burdens of land purchase by buying and leasing it in the form of a hereditary lease (for example to a son or daughter who wished to take over the parental farm, or to tenants who wish to buy land belonging to the landlord).

#### A.4. Organization and cost of agricultural credit

The cost of agricultural credit is determined mainly by the trend in interest rates, which has swung upward considerably in recent years as the result of increasing inflation. Although the Governments of the Member States of the Community have tried to offset the effects of increased interest levels on agricultural lending by grants and interest subsidies, they have not succeeded in protecting the agricultural sector from a cost-related increase in debt burdens. Agricultural borrowers in Member States of the Community have thus had to accept increased costs for their debts.

Agricultural credit in Belgium is concentrated mainly on the four specialized credit institutions, three of which have a public or semi-public character. These are the "Caisse Générale d'Epargne et de Retraite" (CGER) (General Savings and Annuity Bank), which in addition to general banking gives priority to agricultural financing;

the "Société Nationale Terrienne" (SNT) (The National Land Company) which deals in financing personal (small) land ownership, financial assistance in land reallocation and development of agricultural land and granting mortgages for the purchase, construction and modernization of farms; the Institut National de Crédit Agricole (INCA) (National Agricultural Credit Institution) is also a public body. This institution is represented throughout the country. Local representatives give advice on the credit application (and check the spending of the credit). Decisions as to allocation of credit are taken centrally, however. The (only) private agricultural credit organization is the "Centrale Raiffeisenkas van de Belgische Boerenbond" (CERA) (Belgian Farmers' Union Central Agricultural Credit Co-operative), a co-operative bank with about 790 local branches and one central office. This organization grants short-term credit, credit for establishing farm holdings and long-term mortgages. A network of co-operative savings banks was built up in the 1960s to spread available funds on the initiative of INCA.

With a slight decline as compared with 1970, the share of this institution in the total credits granted to agriculture has been maintained at a high level: 78.4% in 1972 and 76.6% in 1973.

Since the 1960s, the commercial banks have shown increasing interest in this form of credit granting and their share has increased from 10.8% in 1972 to 11.7% in 1973. The three specialist institutions granted new agricultural loans amounting to Bfr 5000 million in 1972 and Bfr 7200 million in 1973. Of this sum, Bfr 3900 million in 1972 and Bfr 6000 million in 1973 were earmarked as an interest subsidy by the FIA (Agricultural Investment Fund). Thus 90% of government subsidized loans were granted by CERA, INCA and CGER.

More than half were granted for the establishment of new farms and the purchase of land and buildings, and 40% of the money was invested in the construction of buildings.

Share of the credit institutions in the agricultural credits granted  
(as %)

	<u>1972</u>	<u>1973</u>
CERA	30.8	27.7
INCA	33.8	36.1
CGER	13.8	12.8
Banks	10.8	11.7
Others	10.8	11.7

The average interest rate on the credits granted by the three specialist agricultural credit institutions rose from 6.5% in 1970 to 7.5% in 1971 and, after a fall to 6.9% in 1972, was 7.4% in 1973. The maximum interest subsidy since July 1971 has been 5%.

As has already been mentioned above, the primary form of agricultural financing in Denmark is the mortgage. It is provided by the two national and two regional mortgage banks already referred to, which raise their funds by issuing bonds which in 1972/73 yielded a return of 11.5-11.8%. In the first six months of 1975 the average yield was 13.5%. The costs to the borrowers were equally high. The mortgage is granted up to 50% of the value of the object (land, buildings and movable assets). Only one of the four institutions mentioned, the Dansk Landsbrugs Realkreditfond (DLR) has the right to grant mortgage loans of up to 70% of the value. The loans are granted primarily for financing new buildings in conjunction with the purchase of farms by new owners. The terms of the loans granted by the mortgage banks vary between five and 30 years. The DLR institution, which was established in 1960, operates no banks. Contacts with clients take place only via commercial and savings banks. The credit application must be supported by these banks and they must be prepared to guarantee 5% of the outstanding credit. These bank guarantees form part of the common guarantee fund which operates as a reserve component of the DLR. Under the law, 10% of the outstanding credits must be covered by reserves.

Together with the National Bank and farmers' representatives, the banks and savings banks have seats on the Board of the DLR.

Partly through their participation in the DLR, the savings banks and the commercial banks have cut down considerably the demand for long-term agricultural financing in recent years. They have concentrated on short term and current account agricultural loans. In 1971 the grant of government loans was cut sharply by parliament. Since then, Government loans have still been granted - naturally within strict limits - for the purchase of land, the acquisition of land by the leaseholder from the State and, in particular, at low rates of interest to young farmers for the purposes of establishing farms.

The agricultural co-operatives also have access to the mortgage banks in principle, but their share in the investments of these institutions has remained modest due to the lack of specific property rights and they have increasingly resorted to the banks. The high proportion of bank credit in the medium and long term obligations of the co-operatives arises out of the years in which these co-operatives were established at the end of the last century and the beginning of this one. At that time the co-operatives borrowed solely from local banks.

Credits to agriculture (in millions of Dkr and percentages) as at 31 March<sup>1)</sup>

	<u>1964</u>	<u>1968</u>	<u>1972</u>
Mortgage credit	5.364 (42)	8.054 (39)	11.976 (42)
Savings bank credits	1.526 (12)	1.592 ( 8)	1.478 ( 5)
Commercial bank credits	1.280 (10)	1.700 ( 8)	1.625 ( 6)
Government credits	658 ( 5)	778 ( 4)	1.089 ( 4)
Private credit	3.055 (23)	5.932 (29)	8.425 (30)
Suppliers' credit	996 ( 8)	2.404 (12)	3.822 (13)

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1) In 1974, agricultural credit was divided, with 53.7% in the form of (mortgage) credit with the mortgage banks, 9.1% in the form of mortgage credit with commercial and savings banks, 3.7% in the form of mortgage credit granted by the State, 7.5% long-term credits by private individuals, 8.5% in the form of current account credits with the commercial and savings banks and 17.5% in the form of suppliers' credit.

The universal character of banking in the Federal Republic of Germany has resulted in agricultural credit being granted not by specific credit institutions but by the entire banking system. Institutions which grant only agricultural loans are scarce. Various credit institutions have close historic bonds with the agricultural sector, e.g. the co-operative banks. Their umbrella institution, the "Deutsche Genossenschaftsbank" together with the "Deutsche Girozentrale-Deutsche Kommunalbank" - the leading savings bank institution - and the public institutes which do not have a self-financing basis: "Deutsche Siedlungs- und Landesrentenbank", the "Landwirtschaftliche Rentenbank" and the "Finanzierungs-gesellschaft für Landmaschinen AG" (Figelag) now merged with the "Deutsche Gewerbe- und Landkreditbank" form the four supra-regional institutions.

One of the purely agricultural credit institutions is the "Landwirtschaftliche Rentenbank". This institution grants credits indirectly, i.e. through other banks who are closely involved in agricultural credit. The "Landwirtschaftliche Rentenbank" offers these banks facilities for refinancing their agricultural credits.

The "Landwirtschaftliche Rentenbank" raises the necessary funds on the money and capital market and from the Bundesbank. The "Deutsche Siedlungs- und Landesrentenbank" finances its credit activities from public funds and by raising funds on the capital market, its activities being associated with the organization and re-parcelling of agricultural land, agricultural structural policy and the integration of refugees from Eastern Europe. The Deutsche Genossenschaftsbank (DG Bank) is the leading institution of the co-operative credit organization. This organization includes regional and local Raiffeisen- and Schulze-Delitzsch- credit co-operatives. The DG bank has no branches but acts as a refinancing and liquidity adjustment institution for the regional banks, who in turn perform a similar function for the communal banks. In addition to the regional bank deposits, the DG bank obtains its funds by raising money on the capital market.

The "Deutsche Girozentrale-Deutsche Kommunalbank" (DGZ) includes the regional Girozentralen/Landesbanken in the second echelon and the local savings banks in the third echelon. In short-term business, the DGZ controls the regional bank liquidity reserves required in this connection.



With regard to longer-term banking business, the DGZ grants credits mainly to (local) authorities, the funds being raised on the capital market. As in the case of the co-operative banks, loans to the private sector are granted by the regional banks (with high volume per transaction) and by the communal banks.

Other credit institutions which carry out banking businesses in certain regions are the five "Landschaften" and "Ritterschaften" which grant only medium and long term agricultural loans, and four "Landeskreditanstalten" which, in addition to general housebuilding, finance the purchase and improvement of agricultural land.

In addition to these public institutions, private banking provides agricultural loans. Short and medium term agricultural credit is concentrated mainly on the commercial banks while the longer term agricultural credits are granted mainly by the mortgage banks.

The following table shows, however, that the share of (private) banking in agricultural credit is only 10%. The lion's share is with the public institutions which granted about 90% of agricultural credit in the 1970s.

Average interest rate on:

	<u>Short-term credit</u>	<u>Mortgage credit</u>
1971	7.49	8.49
1972	5.84	8.29
1973	11.30	9.89
1974	11.59	10.47
1975	8.85	8.69

Agricultural credit in France is granted mainly by the "Crédit Agricole Affilié", an organization consisting of three echelons with the "Caisse Nationale de Crédit Agricole" (CNCA) as the umbrella institution. The approximately 3000 local banks and approximately 90 regional banks have a co-operative structure and legal status. The local banks are supervised by the regional banks.

Table 15

Credits granted to the agricultural sector in the Federal Republic of Germany  
(in million DM and percentages respectively)

	Total	Co-operative banking institutions	Savings banks	Special credit institutions	Private banks		Other institutions <sup>2)</sup>
					Mortgage banks	Commercial banks	
<u>1970</u>							
short term	4.259	2.589 (60.8)	1.047 (24.6)	2 ( -)	- ( -)	601 (4.1)	20 (0.5)
medium and long term	19.012	4.229 (22.3)	4.750 (25.0)	6.857 (36.0)	1.033 (5.4)	552 (2.9)	1.591 (8.4)
total	23.271	6.818 (29.3)	5.797 (14.9)	6.859 (29.5)	1.033 (4.4)	1.153 (5.0)	1.611 (6.9)
<u>1974</u>							
short term	5.297	3.088 (58.3)	1.390 (26.3)	1 ( -)	2 ( -)	806 (15.2)	10 (0.2)
medium and long term	21.447	4.894 (22.8)	5.427 (25.4)	7.880 (36.7)	1.000 (4.7)	654 (3.0)	1.582 (7.4)
total	26.744	7.982 (29.8)	6.827 (25.5)	7.881 (29.5)	1.022 (3.7)	1.460 (5.5)	1.592 (6.0)

1) mainly the Deutsche Siedlungs- und Landesrentenbank

2) mainly public credit institutions

They decide on the credit applications which in the first instance are processed by the local banks and sent on to the regional banks with comments. The regional banks ensure a balance between the demand for and supply of funds within the regions and transfer surplus funds to the "Caisse Nationale de Crédit Agricole", a public institution supervised by the Ministry of Economic Affairs and Finance and the Ministry of Agriculture. This institution performs a banking and administrative task.

It is responsible for the banking activities of the organization vis-à-vis the Banque de France and holds the organization's compulsory reserves at the Banque de France. Only this institution is authorized to raise funds by bond issues guaranteed by the government. The local and regional banks are based on deposits and savings (with a maximum credit interest rate) and bearer bonds. On the administrative level, the CNCA processes the credit applications of the regional banks, and co-ordinates and controls their activities. In addition to this organization, the "Crédit Mutuel Libre" also grants agricultural credits. This organization includes the co-operative banking institutions which may or may not specialize in agricultural credit, and the "Banque Française de l'Agriculture et du Crédit Mutuel". This institution, together with the "Confédération Nationale du Crédit Mutuel" supervises the Departmental banks, which in turn supervise the local banks. In addition, the "Banque Française de l'Agriculture et du crédit Mutuel" operates as a central bank for this organization and is the intermediary between the banks of this organization and the "Institut d'Emission" and the "Crédit Foncier de France", which raise the funds for medium-term credits on the capital market.

The commercial banks, on the other hand, finance agriculture to a lesser degree. Their interest rates and conditions are generally less favourable than those of the specialized agricultural credit institutions. In 1973 they had a share of 7% of the outstanding agricultural credit as compared with a share of 70% by the "Crédit Agricole Affilié" and 6% by the "Crédit Mutuel Libre".

Granting of agricultural credits by: (in '000 million French francs)

	<u>1970</u>	<u>1973</u>
Crédit Agricole Affilié	33.7	50.4
Crédit Mutuel Libre	3.0	4.3
Other banks	3.3	5.0
Suppliers	4.0	6.1
Family and individuals	4.0	6.1

In the United Kingdom the clearing banks are the main source of finance for agriculture. Besides current account loans, which are often medium-term, the banks grant loans with a repayment period fixed in accordance with the purpose for which the money is to be used (loan accounts), and in addition there are what are known as formal term lending schemes. These are granted against security in fact and are subject to an interest rate about 1-2% above the current account loans. The loan accounts are granted at a rate of interest 1/2 - 1% above the rate for current account loans. In general the clearing banks charge farmers a lower (1/2%) overdraft interest than industrial borrowers. Mortgages are primarily provided by the Agricultural Mortgage Corporation (AMC) established in 1929. This institution is empowered by the Agricultural Credit Act to raise money on the capital market. Up until the 1960s the activities of the AMC remained limited, but as a result of credit restrictions and the steep increase in the value of real property (in particular land), business has expanded considerably since 1970.

Since the AMC issues rank as near guilt-edged on the Stock Market, the AMC can attract money at lower interest than, for example, industrial issuers. Mortgages are granted up to two-thirds of the estimated value of the holding. However, the borrower must be able to prove that three-quarters of the interest and repayment costs are covered by his income. The AMC grants long-term loans (ten to 40 years), straight loans (three to ten years) which are repaid at the end of the period, and loans of a form intermediate between these. In addition the AMC grants similar loans for farm improvements. The Scottish Agricultural Securities Corporation Limited (SASC) grants similar loans on the same conditions.

Table 16

Credit granted to the agricultural sector in the United Kingdom  
(in millions of pounds Sterling)

Year	Bank Credit <sup>1)</sup>	AMC <sup>1)</sup>	SASC <sup>1)</sup>	Year	Bank Credit <sup>1)</sup>	AMC <sup>1)</sup>	SASC <sup>1)</sup>
1960	372	35.6		1968	533	103.1	6.6
1961	376	35.6		1969	527	128.1	7.8
1962	415	47.9		1970	536	153.5	8.8
1963	457	50.6		1971	591	170.3	10.0
1964	515	57.6	4.4	1972	690	178.9	10.3
1965	524	64.2	5.6	1973	795(806)	205.8	10.9
1966	512	71.5	5.9	1974	965	244.2	11.6
1967	511	87.1	6.3	1975(aug)	1050	273.9	

1) credits outstanding as at end of March

Bank rate <sup>1)</sup>

1961	6	1969	8
1962	4½-5½	1970	7-7½
1963	4	1971	5-6 <sup>3)</sup>
1964	5-7	1972	6-9 <sup>2)</sup>
1965	6	1973	7½-13 <sup>3)</sup>
1966	7	1974	11½-123/4
1967	5½-8	1975	93/4-12
1968			9½-11½

1) Minimum and maximum rates paid by first-class agricultural borrowers for credit requirements usually a minimum of 1½ - 2% and a maximum of 3 - 4% more than the current bank rate.

2) Minimum lending rate adopted

3) Clearing bank base rate

In the United Kingdom as in other countries the non-banking sector also contributes to agricultural financing, particularly by trade credits, instalment credits, leasing and the granting of credit by co-operatives to their members and by the Milk Marketing Board to milk producers<sup>1)</sup>.

The clearing banks are also the main financiers for agriculture in Ireland. As at the end of 1974, the share of the banks in agricultural credit was 64%. The Agricultural Credit Corporation also provided an important contribution, granting 22% of agricultural loans. Of the banks, the four "Associated Banks" are the predominant credit sources. These institutions: The Bank of Ireland, Allied Bank, Ulster and the Northern Bank, together grant about 52% of agricultural credit. Since the Associated Banks co-operate closely with the Central Bank of Ireland in many areas, including debit and credit interest, these banks do not compete at the price level but they do compete in respect of agricultural credit terms. All forms of agricultural credit - i.e. for establishing farms, the development and improvement of agricultural land - are granted by these institutions. Since 1972 credits are differentiated by the term; credit agreements were previously frequently made without fixed repayment periods and conditions on a current account basis. The fixing of the term and interest rate also made it possible to introduce a differentiated interest system: the AAA rate for government loans, the AA rate for agricultural and industrial loans and A rate for private loans. Where interest was previously constant over a relatively long term, the agricultural borrower is now also subject to interest rate fluctuations. In addition to the Associated Banks, the non-associated banks are modest lenders to agriculture. They concentrate mainly on granting (large) short-term credits to agricultural undertakings. The Agricultural Credit Corporation has an appreciable share of the external financing of agriculture, this body having no banking licence but being responsible directly to the Ministry of Finance. The financing sources are government funds, deposits and government-guaranteed long-term loans on the capital market or on the international money and capital market.

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1) According to an inquiry in 1970, the debts in the agricultural sector consisted of bank credits (38%), private credit (27%), trade credit (19%), mortgage credit (13%), debts with insurance companies (2%) and instalment credits (1%).

Credits are in the form of general (project-linked) credits (for development or modernization work, inter alia), seasonal credits, agricultural business credits, unsecured credits and instalment credits. Here again the variable interest rate and term-dependent interest rates have been adopted. Mortgage financing is of little importance in Ireland. The reason for this lies in the history of the Irish leases. The conflicts between owners and leaseholders at the turn of the century, resulting in the establishment of an Irish Land Commission created an unwillingness to sell agricultural land, thus reducing the mortgage value basis. Since the beginning of this century, this government body has bought up (large) properties of the large landowners and ceded them in divided form to the previous leaseholders or other qualified farmers, against mortgage loans having a term of between 40 and 60 years.

Credit granted to the agricultural sector in Ireland as at the end of 1974:

	<u>mln £</u>	<u>%</u>
Associated Banks	245.7	51.6
Non-associated banks	59.0	12.4
Other finance houses	27.3	5.7
Agricultural Credit Corporation (ACC)	103.5	21.7
Industrial Credit Company	4.8	1.0
Irish Land Commission	36.0	7.6

Interest rate<sup>1)</sup> on credits granted by the ACC

Terms

up to 1 year	12	%
1 to 5 years	13 3/4	%
6 to 9 years	14 1/2	%
longer	15	%

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1) as at May 1975.

AA rates - associated banks

	<u>1973 0</u>	<u>1974</u>	<u>1975 April</u>
Loans with terms:			
Overdraft and loans up to 1 year	9.4	12.5	11.5
1 to 3 years	10.9	13.0	12.0
3 to 5 years	11.4	13.5	12.5
5 to 7 years	11.9	14.0	13.0
Loan account	12.4	14.5	13.5

Agricultural credit enjoys a special status in Italy. It may be granted only by special agricultural credit institutions and by financial institutions so authorized by law or by the government. The granting of credit comes under the supervision of the Minister of Agriculture, but is in fact determined by the Interministerial Committee for Credit and Savings, which is in turn responsible to the Banca d'Italia. Under the law, a distinction is drawn between operating credits (of a term of up to five years) and credits for establishing a holding, expansion, modernization and irrigation (the terms varying from six months to 30 years).

Loans are made primarily by four national and nine regional and inter-regional agricultural credit institutes. The national agricultural banks (Consorzio Nazionale per il Credito Agrario di Miglioramento; Banca Nazionale del Lavoro; Banca Nazionale dell'Agricoltura and the Banca Centrale di Credito Popolare) are concerned more with long-term credit. The regional banks (for the regions: Venice, Lombardy, Naples, Sicily, Piedmont, Tuscany, Sardinia, Emilia-Romagna and Central Italy) perform an advisory and supervisory task with respect to the local banks in addition to their banking business. Savings banks, national and artisan banks, and the commercial banks also provide the agricultural sector with (external) capital.

However, lending by the commercial banks has been stagnating in recent years as a result of increased lending in other sectors where higher interest rates could be obtained. This trend helped the specialist regional and national agricultural credit institutes to increase their share of agricultural lending.



Table 17

Activities of the special agricultural credit institutes  
(in '000 million Lire)

	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1973</u>
Long-term credits	660	1.030	1.108	1.450
of which agricultural credit institutes	(371)	(645)	(918)	(1.210)
Short-term credits	280	520	629	869
of which agricultural credit institutes	(167)	(291)	(525)	(727)

Average debit interest rate on:

Year	Operating credits		Investment and modernization credits	
	Central and Northern Italy	Mezzogiorno	Central and Northern Italy	Mezzogiorno
1961-1962	6.75	7%	7.1	7.3%
1964-1969	7.15	7.4	8.3	8.5
1970	8.15	8.4	9.3	9.5
1973	7.9	8.15	9.05	9.25
1.1-16.9.1974	10.0	10.25	10.70	10.95
17.9-31.12.1974	13.8	13.8	13.8	13.8

In 1973 the share of these institutions in general agricultural lending was 37% and in lending for purposes of improvement and modernization 70%. Of the loans granted in that year 40% were subsidized by the State. This interest subsidy was fixed by the Minister of Finance in consultation with the Interministerial Committee for Loans and Savings.

The interest subsidy is granted according to a graded method using criteria such as region, purpose of the loan and the applicant (private individual or co-operative). In recent years loans for the purchase of stock and machinery, for the establishment of holdings and for the improvement and modernization of existing holdings were granted at a lower rate of interest for about half the amount. As a result, in 1973 the actual cost of farm loans amounted to 5 - 7% and loans for reconstruction and modernization purposes as low as 2 3/4 %, at a time when overdraft interest stood at 14 1/2 %.

A special source of finance is the "Caisse pour la formation de la petite propriété rurale" (Small Farm Development Fund), a public body which buys land with State funds and resells it at special interest rates (30 year loans at 1%, now 4%). Since 1964 this body has bought 126 307 hectares of land, of which 109 971 hectares (87%) were resold to farmers and 15 620 to co-operatives.

In Luxembourg, 75% of agricultural loans are granted by the co-operative banks, followed by the savings banks (accounting for 18% of agricultural loans) and the private banking sector (7 1/2%).

The 119 "country" banks (Caisses Rurales), i.e. co-operative savings and credit banks, are locally autonomous but have an umbrella institute in the "Caisse Centrale des Associations Agricoles" (CCAA) which, inter alia, ensures a balance in the supply of and the demand for capital between the regions. The local banks are obliged to deposit surplus funds at the CCAA. The "Caisse d'Epargne de l'Etat", which includes 90 branches all over the country is a public institute under the supervision of the government. Originally established as a deposit bank, this institute now performs all banking functions.

Table 18

Loans to the agricultural sector:

	<u>1969</u>		<u>1974</u>	
	<u>In millions Lfr.</u>	<u>as %</u>	<u>in millions Lfr.</u>	<u>as %</u>
Caisse Centrale and Caisses Rurales				
- to co-operatives	1.075	68.4	1.965	74.2
- to private farmers	535		912	
Caisse d'Epargne de l'Etat				
- to farmers	533	22.7	711	18.3
Private clearing banks				
- to farmers	210	8.9	290	7.5
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL	2.353	100.0	3.878	100.0

Interest charges<sup>1)</sup> for (agricultural) credits:

	<u>Caisse Centrale and Caisses Rurales</u>		<u>Caisse d'Epargne</u>		<u>Private clearing banks</u>	
	<u>1969</u>	<u>1974</u>	<u>1969</u>	<u>1974</u>	<u>1969</u>	<u>1974</u>
Mortgage credit	6.5	8.5	6.5	8.5	8-9	8.5-10
Short-term credit	7.0	9.0	7.5	9.0	8-9	9 -10
Current account credit	6.5-7	9.0	7-7.5	9.0	8-8.5	10

1) Average

As a result of increased international orientation, the clearing banks have engaged only modestly in agricultural loans; this form of investment is of secondary importance to them. The said credit institutes raise the funds for their banking operations via deposits, savings accounts, and the issue of bearer bonds and deposit bonds.

The agricultural borrower is subject to the same interest rates as other borrowers, and the agricultural sector in fact receives preference in the lending by the co-operative banks. The savings banks and the general banks, however, make no distinction in approving credit applications from agriculture, industry and the private sector.

In the Netherlands the most important agricultural credit organization is the Raiffeisen-Boerenleenbank (Rabobank). About 90% of bank loans to agriculture originate from this organization of co-operative credit institutes. The remainder, some 10%, comes from other financial institutes and insurance companies. The Rabobank organization has two echelons, 1050 local banks with 3150 branches and a central office. The local banks are legally autonomous but are under the banking supervision of the Centrale Rabobank, which is responsible to the Nederlandsche Bank for banking transactions by the entire organization. A supplementary (financial) task is performed by the Rabohypotheekbank NV. The funds required by the Rabohypotheekbank come from both within and outside the organization by the issue of mortgage bonds.

Although still operative under the official name of Co-operative Agricultural Credit Institutes, the proportion of loans to agricultural undertakings in the total loans granted by the Rabobank organization has dropped steadily in the last ten years to about 30%. Of the loans granted by this organization in 1975 (7900 million Dutch guilders), 2400 million Dutch guilders (30%) went to the agricultural sector. In the preceding year, this sector's share of the investments was 37%. This result, however, was due to the investment spirit stimulated by interest rate subsidy arrangements. Approximately one-fifth of the loans made at that time were subsidized. In addition to the interest rate subsidies arrangement, the "Borgstellingsfonds voor de Landbouw" had a stimulating effect on agricultural borrowing.

The Rabobank organization gives preferential treatment to applications for credit by farmers, but the rates are the same for all borrowers. The other credit institutes generally do not give agricultural borrowers any preferential treatment and do not usually apply any interest rate differentiation. Just as elsewhere in the EEC, the agricultural borrower has in recent years faced progressive increases in interest rates. The interest rate on current account credits, which was still at 6% in 1965, rose in stages to 11% in 1974. The interest rate on mortgage credit - in view of the high proportion of long-term financing in agriculture - an even more important cost component, also showed a continuing rise and reached a maximum of 10.25% in 1974, the highest level of the last two decades.

Breakdown of new loans granted by the Rabobank organization:

	<u>1965</u>		<u>1974</u>		<u>1975</u>	
	<u>mln f</u>	<u>in %</u>	<u>mln f</u>	<u>in %</u>	<u>mln f</u>	<u>in %</u>
Agricultural undertakings	600	( 45)	2.160	( 36)	2.350	( 30)
Other undertakings	300	( 22)	990	( 17)	1.350	( 17)
Other groups	480	( 33)	2.830	( 47)	4.150	( 53)
	<u>1.380</u>	<u>(100)</u>	<u>5.980</u>	<u>(100)</u>	<u>7.850</u>	<u>(100)</u>

Interest rates on agricultural loans granted by the Rabobank organization

	<u>1965</u>	<u>1968</u>	<u>1970</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
Mortgage credits	$5\frac{1}{2}$ - $5\frac{3}{4}$	$6\frac{3}{4}$	8 - $8\frac{1}{2}$	8 - $8\frac{1}{4}$	$7\frac{3}{4}$ - $8\frac{1}{2}$	$9\frac{1}{4}$ - $10\frac{1}{4}$
Loans to agricultural co-operatives	$5\frac{1}{2}$ - $5\frac{3}{4}$	$6\frac{3}{4}$	8 - $8\frac{1}{4}$	8 - $8\frac{1}{4}$	$7\frac{3}{4}$ - $8\frac{1}{2}$	$9\frac{1}{4}$ - $10\frac{1}{4}$
Current Account Loans	6	$6\frac{3}{4}$	8 - $8\frac{3}{4}$	8 - $8\frac{1}{4}$	$7\frac{1}{2}$ -9	$10\frac{1}{4}$ -11

Table 19

	Interest rate 2)	Interest charges (in millions)		u.a.	Interest charges as a percentage of value of agricultural production
<u>Belgium</u>					
1970	6.53%				
1971	7.25%				
1972	6.93%	B.fr.	6.182	ua 127.1	5.5
1973	7.42%	B.fr.	6.692	ua 137.5	-
<u>Denmark</u>					
1960/61-1964/65	7.60%	Ø D.kr.	640 <sup>1)</sup>	ua 92.7	
1965/66-1969/70	9.86%	Ø D.kr.	1.217 <sup>1)</sup>	ua 162.3	
1970/71	11.99%	D.kr.	1.956	ua 258.1	14.2
1971/72	11.74%	D.kr.	2.092	ua 276.1	14.2
1972/73	13.58%	D.kr.	2.105	ua 277.8	12.7
<u>Federal Republic of Germany</u>					
1965/1966	5.6%	DM	1.135	ua 283.8	
1970/1971	5.8%	DM	1.541	ua 421.0	4.2
1971/1972	5.2%	DM	1.412	ua 403.6	3.9
1972/1973	6.1%	DM	1.688	ua 488.4	4.1
1973/1974	7.0%	DM	2.009	ua 623.9	4.5
<u>France</u>					
1965		F.fr.	900	ua 182.3	2.2
1970		F.fr.	1.915	ua 344.8	2.7
1973		F.fr.	3.430	ua 617.6	3.3
<u>Luxembourg</u>					
1972		L.fr.	230	ua 4.7	6.1
1973		L.fr.	242	ua 4.9	5.8
1974		L.fr.	277	ua 5.7	
<u>Netherlands</u>					
1963		fl	83	ua 22.9	
1968		fl	165	ua 45.6	1.6
1972		fl	306	ua 86.9	2.2
1973		fl	340	ua 97.9	2.1

1) per annum

2) For Denmark the figures refer to mortgage credits only.  
Mortgage loans, however, have accounted for about 85 per cent  
of the total amount of new loans to agriculture in recent years.

Table 20

Organization of agricultural credit in the EEC Member Countries

<u>By country</u>	<u>By legal form</u>	<u>By echelon</u>
<u>Belgium</u>		
-Caisse Générale d'Epargne et de Retraite + 31 agricultural banks	public	national
-Institut National de Crédit Agricole (INCA) + 2 subsidiary institutes	public	national
-Société Nationale Terrienne (SNT)	public	national
-Caisse Centrale des Caisses Raiffeisen (CERA) + 790 country banks	private	national
	private	local
-Commercial banks	private	
<u>Denmark</u>		
Mortgage banks:		
-Dansk Landbrugs Realkreditfond	private	national
-Kreditforeningen Danmark	private	national
-Forenede Kreditforeninger	private	regional
-Jyllands Kreditforening	private	regional
-Savings banks	private	national
-Commercial banks	private	national
-Co-operative village banks	private	local
<u>Federal Republic of Germany</u>		
-Landwirtschaftliche Rentenbank	public	national
-Deutsche Siedlungs- und Landesrentenbank	public	national
Co-operative credit institutes		
-Deutsche Genossenschaftsbank	public	national
-10 central co-operative banks (Raiffeisen and Schultze Delitzsch)	private	regional
-5200 Coöperatives de crédit Raiffeisen and Caisses Schultze Delitzsch	private	local
	private	local
Savings banks		
-Deutsche Girozentrale - Deutsche Kommunalbank	public	national
-11 Girozentralen/Landesbanken	public	regional
-740 Caisses d'épargen communales	public	local
Land and tenancy banks		
-5 Landschaften and Ritterschaften	private	regional
	public	regional
-4 Land credit institutes	public	regional
-28 Mortgage banks (private)	private	
-Credit banks	private	

Table 20 continued

<u>By country</u>	<u>By legal form</u>	<u>By echelon</u>
<u>France</u>		
Crédit mutuel officiel		
-Caisse Nationale de Crédit Agricole (CNCA)	public	national
-94 regional banks (+ branch offices)	private	regional
-3017 local banks	private	local
Crédit mutuel libre		
-Banque Française de l'Agriculture et du Crédit mutuel	private	national
-Caisse Centrale du Crédit Mutuel	private	national
-4 Departmental banks	private	regional
-Local banks	private	local
-10 large-area banks	private	
Caisse Centrale du Crédit Mutuel	private	national
-Departmental banks	private	regional
-Local banks	private	local
-Commercial banks	private	
<u>United Kingdom</u>		
-Agricultural Mortgage Corporation	private	national (England, N. Ireland)
-Scottish Mortgage Corporation	private	regional (Scotland)
-Clearing banks	private	national
<u>Ireland</u>		
-Agricultural Credit Corporation	public	national
-Industrial Credit Company	public	national
-Irish Land Commission	public	national
-Clearing banks (4) associated banks	private	national
non-associated banks	private	national
<u>Italy</u>		
Institutes created by law:		
-Miglio Consorzio	public	national
-Banca Nazionale del Lavoro	public	national
-Banca Nazionale del Agricoltura	public	national
-Centrobanca	public	national
Regional and supraregional institutes		
-5 agricultural credit departments	public	national
-5 federal regional institutes	public	
Other institutes		
-Banks for the establishment of agricultural holdings	public	
-Cassa per il Mezzogiorno	public	



Table 20 continued

<u>By country</u>	<u>By legal form</u>	<u>By echelon</u>
<u>Luxembourg</u>		
-Caisse Centrale des Associations Agricoles (CCAA) + country banks	private	national
-Caisse d'Epargne de l'Etat	private	local
-Commercial banks	public	
	private	
<u>The Netherlands</u>		
Co-operative agricultural credit institutes		
-Rabobank organization	private	national
+ 1050 associated banks	private	national
-Country banks	private	national
Allied banks		
-Rabo Mortgage banks	private	national
Other institutes		
-Commercial banks	private	national
-Savings banks	private	national
-Mortgage banks	private	national

A.5. Influence of economic cycles and long-term economic development on agricultural credit

In addition to the trend in general economic development outlined at the beginning of this report, agriculture has in the short and medium term been confronted with cyclical fluctuations in the economy and influences arising out of national and supranational bodies. The most striking change in the economic picture has taken place in the last two years. For the first time in the post-war period, EEC Member Countries experienced a paralysis in economic activity expressed as negative real growth, and hence a common impoverishment. Although national economies have in the past known periods of declining and increased activity, real growth was always positive. Moreover, various sectors were able to compensate in foreign markets for declining or increasing domestic markets.

Today, even this (potential) path is blocked. For the first time in the post-war period, national fluctuations in economic activity are taking place simultaneously, and economic interdependence has become a fact. This narrow inter-relationship also determines the radius of action of the national authorities. Government measures to stimulate or check the economy have to be taken with one eye on the rest of the world. National programmes which are not adjusted to one another and therefore do not have a (comparatively) corresponding intensity, do not achieve the required result. For example, the effect of additional government expenditure or expansionary monetary policy may be disappointing if money leaves the expanded national money and capital market for financial markets abroad where interest rate is more attractive. These reactions have been the order of the day particularly in recent years, after the removal of capital restrictions and the introduction of floating exchange rates.

Psychological factors (including anticipation of inflation), interest margins, and fluctuations in rates of exchange have resulted in a sudden swelling and drying up of the national money market, a source which agriculture has also called upon to an ever-increasing extent in view of the rising rates of interest for long-term money. The money market, which was previously to a great extent influenced by the national central bank by changes in bank rate, minimum reserves, rediscounting facilities, open-market transactions and so on, is now subject to external factors.

Furthermore, the interest rates policy of the monetary authorities has been put into the service of the exchange rate policy. Since the removal of the fixed exchange rate arrangement in 1972/1973, the value of currencies is also determined by capital flow induced by interest rate considerations. An increase in the national interest rate level attracts foreign money and therefore increases the demand for the currency in question and strengthens the position of that currency on the foreign-exchange markets. The national money market therefore undergoes expansion.

In addition to monetary policy, interest rates are influenced by balance of payment situations. A surplus position, for example, has a two-fold effect on the development of interest rates; directly, there was a downward pressure on the interest rate level due to the expanding action of surpluses on liquidity of banks and other sectors; indirectly, the interest rate level was influenced by the central bank, which reacted with counter-measures to restrict liquidity and increase interest rates in accordance with its function of stabilizing the value of the currency.

Another influencing factor of increasing importance is the government. The varying calls by the State on the money and capital market also have their effect on the interest rate level. In the 1950s and 1960s it was possible for governments to end their financial year with a positive balance. However, for some years now government authorities in all the EEC Member States have been confronted with accelerating expenditure and declining income. There has therefore been an increasingly greater demand on the financial markets and the State has to a high degree become a strong competitor in the contest for tight financial resources. The magnitude thereof has resulted in interest rates being subjected to pressure resulting in their increase.

The determining factor in the development of interest rates in recent years, however, has been inflation - which has clearly taken the form of a torrent. Inflation, which has occurred to different degrees in the EEC States<sup>1)</sup>, has put an end to the existing money illusion. The sensitivity threshold has clearly been crossed.

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1) Inflation in the various EEC Member States varied within a wide range from 7% to 20% in 1974.

Thinking in nominal terms has given way to thinking in real terms. The (nominal) rate of interest must be more than an inflation compensation. An additional (real) return is expected on the inflated base.

With an ever-increasing basic interest rate (inflation compensation) this requirement resulted in a sharp rise in the total interest rate level. In addition to concern over progressive inflation, this awareness of interest rates was also the consequence of more intensive information on alternative fields of investment from the banks. Countless investors consequently changed their savings-bank passbook (with its relatively low yield) for other forms of investment (fixed-term saving, savings certificates, bonds, etc). This trend, which is therefore based on a higher information level, is expected to continue in the near future. Ceteris paribus this means that credit will become more expensive in the medium and long term for the entire economy, including agriculture.

Governments of some of the EEC Member States, namely the Federal Republic of Germany, Denmark, Italy and France, have tried to cushion the effect of the higher interest rates working through to agricultural credit. However, they have not been successful in exempting the agricultural sector from a cost-induced increase in charges. Although the interest rate increase has been toned down, it has not been prevented. Until the 1960s, various government bodies still kept to maximum interest rate levels for agriculture. If the market interest rate rose above these values, the interest rate subsidy was applied.

Other countries increased direct subsidies to agriculture (e.g. by means of cash grants in the UK and Ireland) so that recourse by agriculture to external finance can be reduced and interest rates thus softened. The intense pressure on the financial position of governments in recent years, however, has not allowed any further increase in interest rate subsidies. All that is maintained now is a margin, which may or may not vary, between the interest rate on the capital market and the interest rate considered acceptable for agriculture. Agriculture is to a greater extent independent of interest rate developments on the financial markets only in the case of those credits which are financed solely by the public money. These credits are generally made available at an extremely low interest rate and are usually reserved for specific purposes.

These projects generally require a high volume of financing, for which only a low yield can be obtained, but they are necessary for socio-economic reasons.

Examples of such transactions are land reclamation, land reparation, the construction of roads and waterways, irrigation, the shutdown and reorganization of undertakings, modernization and restructuring of agricultural sectors. These infra-structure and regional measures have, incidentally, formed a considerable proportion of the increase in the indebtedness of agriculture in the Member States.

In addition to general economic influences and national government decisions, activities in agriculture in past decades have been formed by the common agricultural policy within the EEC. With the establishment of the EEC, agriculturists were not only faced with heavier competition from abroad<sup>1)</sup> but they also saw the pricing of their products influenced.

Decision-making is also influenced by the budgetary burdens of the Common Market and price policy for agricultural products, connected with the problem of the market balance for which, for example, the guide prices were frozen in some years (e.g. from 1969-70 to 1970-71 inclusive) and subsequently annually adjusted. Although the agricultural industry was able to base its activity on a guidance price level - a guarantee which might have contributed to certain surplus productions - the financial position of the agricultural industry was affected by the divergency between the general price level and the belated and restrictedly increased prices of agricultural products. Particularly after the energy crisis - at the end of 1973 - agriculture and horticulture were faced with a sharp increase in cost factors which could not fully be offset by the permitted increase in guidance and orientation prices of 5.5% in the 1973-1974 financial year and 14.5% in 1974-1975.

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1) Inter alia, this induced restructuring and modernization investments, an inevitable process as agriculture in the three new EEC Member States is now discovering and reacting accordingly.

The difficulties facing the common market and price policy for agricultural products, partly due to the absence of a common economic and monetary policy, may well form a basis for a profound study of the EEC agricultural policy. It appears likely that the producers will have increased financial responsibility for permanent surpluses.

## B. Probable developments in connection with agricultural credit

The developments outlined above have resulted in a drastic increase in external financing of agriculture in all the EEC Member States. Despite the increase in the (book) value of assets, particularly cultivated land, personal capital could not keep pace with this development. The ratio of personal capital to external capital has without exception shifted to the detriment of personal capital. There have been striking shifts in the capital structure in agriculture in Germany, France and Luxembourg<sup>(1)</sup>. In these countries, the personal capital component fell from about 90% of total agricultural capital to 80 - 85% in the period from 1960 to 1973. In most of the Member States, however, the increased call on external funds was not coupled with a corresponding (or even progressive) growth in agricultural production. As a consequence of this development, the ratio of gross agricultural production to external capital fell in all the Member States in the 1960s<sup>(2)</sup>. The most outstanding decline was in Belgian and French agriculture. For example, in 1961 there was one unit of credit against  $3\frac{1}{2}$  units of gross production in French agriculture while in 1973 the ratio was 1 :  $1\frac{1}{2}$ . However, in those countries where the agricultural sector (traditionally) operates with a degree of external capital, the fall in the ratio was not so pronounced. It was striking that even in countries such as Germany, Luxembourg and the Netherlands, this ratio improved to the benefit of gross production at the beginning of the 1970s. Probably the increased improvement and modernization efforts in the 1960s are now being manifested in increased productivity after a period of adaptation. It has been possible more recently in these countries to stimulate gross production more intensively by raising external money than during the second half of the last decade. It is impossible to say at this stage whether this will be potentially or in fact utilized by the farmer and encourage him to make investments financed by external capital.

Apart from the fact that it is far from certain that increased production expresses itself in the form of increasing extra returns, and that the latter in turn result in improved income, decision taking and hence the demand for agricultural credit is to a significant degree determined by the ratio of income improvement to additional interest charges.

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(1) See Table 7a, page 34

(2) See Table 11, page 44

It would have therefore been interesting to study to what extent the raising of external capital can increase the net added value, i.e. the remuneration of the complementary production factors labour and capital in the agricultural sector. Any consideration of this relationship, however, is disturbed by the lack of data for some States and over a longer period in respect of other Member States. Nevertheless, it can be stated that in some States, e.g. Italy, the raising of external capital creates the possibility of increasing the remuneration of the production factors progressively. In the majority of the Member States where external capital financing is already at a high level, the raising of additional external funds, on the other hand, results in a fractional increase in the remuneration of the production factors. In such cases the ratio of net added value to external capital is below the critical value of one. In view of the limited possibilities of farmers increasingly financing their own activities themselves, agriculture in many countries will therefore have to devote special attention to those investment activities which improve the said ratio in the direction of the critical value or which bring it above that value. The latter is even more necessary from the principle of improving the remuneration of labour employed by the farmer and his personal capital and taking into account greater pressure of interest charges in raising more external capital in the future. Special emphasis will also have to be placed on activities which so stimulate the productivity and efficiency of the agricultural undertaking that the resulting profitability level affords room for regular debt payment and for improving or at least maintaining the income position of the agriculturist.

It is also desirable that technical advance should be increasingly adopted in agriculture. The possibility of more intensive exploitation of agricultural land, the introduction of new production methods and the improvement/modernization of the existing production apparatus, however, varies from one Member State to another and nationally within the various categories of agricultural undertakings. For example, it is possible that the agricultural sector in various EEC States, more particularly, Benelux, Denmark and, regionally, in Germany, with the high capital intensity already attained, will limit investments with prospects of increased yield unless established production structures are radically changed. The latter appears to be a less realistic assumption at the present time both from social and budgetary aspects.



The possibilities of increased adaptation of technology are limited from one undertaking to another not only within the European framework but also nationally. The market position (stable and/or prospective markets, monopoly or oligopoly) of the undertaking may have a stimulating or an inhibiting influence on investment activities.

To generalize, it may nevertheless be stated that in those States where the critical value of the ratio of net added value to external capital is not achieved by agriculture without a continuing increase in the capital coefficient of this sector there will ultimately be a far-reaching shift in the capital structure to the detriment of the personal capital position of the farmer. The need to increase the capital coefficient of agriculture is additionally intensified when the object is not only to maintain or improve the nominal, but also the real financial position of the farmer. This requirement means that, in future, still more must be done in respect of investments in breadth and, above all, in depth, whereby a substitution of the factors labour and capital be effected to an even greater degree.

Despite the level of agricultural capital intensity already reached in various Member States, the increase in the ratio in the 1970s in precisely those countries offers hopeful prospects of the efficacy of such efforts. In other States where agriculture still operates with a ratio above the critical value, these considerations may well appear less urgent. However, it is precisely there that the present capital intensity of agriculture opens possibilities of increasing productivity and profitability by increased employment of labour and, in particular, capital. Increased efforts in the area of development and (more) intensive exploitation of agricultural land, and the introduction of new, and the improvement of existing, production methods are ways in which it is possible to try to check the falling trend of the ratio.

On the principle of maintaining or desirably improving the financial position of the farmer, it can also be stated that agriculture in the EEC Member States will have a still more capital-intensive character than it already has. In States with a relatively lower capital intensity in agriculture, it may be assumed that investments there will show an increased volume.

As a result of the level of investment attained and the degree of technology achieved, agriculture in the other Member States will be marked more by an increase in the value of the investments, partly depth-investments and partly re-investment, and at increasing the technical quality of the production apparatus.

A study of French agriculture may serve as an indication of the capital-intensive character of agriculture. In order to produce one unit of added value, agriculture required - as long ago as 1970 - approximately three times as much net capital<sup>1)</sup> as transport, four times as much net capital as the steel industry, eight times as much net capital as the textile industry and ten times as much net capital as the tertiary sector<sup>2)</sup>. The capital/ output ratio in agriculture is therefore at a much higher level than in the other productive sectors; it would be quite reasonable to assume that this ratio is at an even higher level in other Member States, more particularly the Benelux countries, Denmark and, regionally, in Germany.

Against the background of anticipated investment activity and the agricultural financing requirements arising therefrom, one may ask whether the national governments - in anticipation of these developments - have taken steps or made plans to meet the demand for external capital by the agriculturist. If some countries should decide not to provide any further support to agriculture for budgetary reasons, the question arises to what extent the (prospective) regulations will have a competition-distorting effect elsewhere and bring about additional investment stimuli. Aside one may ask to what extent it is justified and necessary to retain capital-intensive agriculture in certain regions of the EEC for national considerations particularly when the effect of these efforts is correlated to the position of regional agriculture in world competition. If we call to mind the possibilities of agriculture in other parts of the world (e.g. Brazil and the USA), then there are probably reasons for the Community to ensure that the additional contribution of the (expensive) factor capital is kept within specific limits in the agricultural production process.

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1) Defined as the stock of capital goods at the end of the preceding year plus net investments in the current year.

2) A propos de l'endettement de l'agriculture, in: L'administrateur du du Crédit Agricole, Feb. 1975, pp. 6-11.

B.1. Changes planned or in preparation in connection with legislation governing credits and with the organization of agricultural credit

The governments of the EEC Member States adopt a reserved attitude with regard to a further-reaching support of the agricultural sector. Although legislation in preparation in Luxembourg and the Netherlands is aimed at further modernization and reorganization of agriculture, and the financial consequences are partially borne by the State<sup>1)</sup>, no direct credit facilities are granted. A proposal currently being considered in the U.K. and the Netherlands is for the permanent establishment of a financing body with the object of reducing financial burdens by purchasing land and ceding it on long leases to, inter alia, the original owners.

Against the background of the increasing need for foreign capital for agriculture, increasing commercialization and valorization of agricultural products, improvement of the environment and the development of regional economy, an extension of the activities of the "Crédit agricole" has been under discussion for some time in France. A sharper centralization of resources for agriculture and regional development is under consideration. With the aid of such a source of finance it would be possible to intensify financing for the restructuring of agriculture, as well as to stimulate regional economy; it would also be able to act as a national bank institution at the service of private individuals and particular professions (e.g. general practitioners, veterinary surgeons), undertakings in restructuring and development areas, public utilities and the lower authorities.

With this arrangement the "Crédit agricole" would acquire the general character of a bank. Credit activities on this potentially new plans would not, however, enjoy State subsidies. As far as we know, the government intends to restrict the progression of interest-rate subsidies. In Italy, apparently, attempts are also to be made in the near future to facilitate credit availability on behalf of more extensive rationalization of agriculture. Amendments concerning agricultural credit legislation have been included in the first and second green plans in order to provide government action to keep interest rates at a level considered acceptable for agriculture.

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1) A fixed-term termination scheme has been proposed in the Netherlands.

Under these plans, the government will in future bear the difference between the market interest rate (mid 1976 :  $14\frac{1}{2}\%$ ) and the credit interest rate considered acceptable for agriculture (5-7% for undertaking credits,  $3\frac{1}{2}$  - 5% on credits for improvements and 3% on credits for the purchase of an agricultural undertaking). The procedure for obtaining agricultural credit is to be facilitated and the processing of the credit application is to be shortened. In addition, the attempt is to be made to improve the functioning of the "Fonds Interbancaire" and the agricultural credit institutes will receive backing in supervising the use by agriculturists of loans granted for specific purposes. A Bill is also in progress to establish a national agricultural credit institute. The function of this institute would be to raise the funds required for agriculture and make them available to the agricultural credit institutes. Those institutes which concentrate on agricultural credit for improvement and modernization activities and whose credits enjoy interest rate subsidies shall henceforth be authorized to raise funds by issuing bonds.

The reticence of the government in quantitative and qualitative support in granting credit to agriculture the supply of, and the price of, agricultural credit and now determined largely by monetary policy<sup>1)</sup> is certainly the result of budgetary difficulties in all the EEC Member States. The efforts of governments to balance income and expenditure (which have nevertheless regularly resulted in a considerable excess of expenditure) have left no room for additional financial aid to agriculture. Apart from these budgetary considerations, developments on agricultural product markets have played an important part. The over-production of important agricultural products has not only resulted in higher contributions to the common agricultural fund to meet the intervention costs and to provide the farmers with an income level which may or may not be adequate, but has also given rise amongst the population to some lack of understanding of the common market and price policy particularly in view of the conditions of sales of surpluses to non-member countries. National authorities have frequently found it difficult to explain increased financial aid to the agricultural sector in such cases.

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1) Parliamentary Bills in progress concerning new bank legislation in Germany and the Netherlands stipulate higher requirements for bank liquidity and solvency. Although this is not intended to bring about credit restrictions directly, the provisions of these Bills may influence the activities of the banks with regard to agricultural credit if restricted manoeuvrability (as a result of liquidity and solvency requirements) makes it preferable to provide industrial loans which usually give a higher rate of return.

With the curtailment of certain privileges and gradual harmonization between agricultural credit and other forms of credit, a start appears to have been made in some States on transferring to the agriculturist financial responsibilities for the production of surpluses. It appears that attempts are now being made to stabilize the markets for agricultural products by influencing agricultural credit.

If farmers and horticulturists are going to have to pay a price more adapted to the market for their demand for foreign capital, they will have to adapt their investments more sharply to the rate of return available. A higher rate of return will then form the touchstone as to whether or not to invest (and produce). At the same time, economic management criteria will have to find acceptance in the agriculturist's conduct of his business. Such criteria would probably make him consider whether his business activities are suited to further expansion or are perhaps better diverted to other activities, for example from mono-cultivation to omni-cultivation or further diversification. The banks will find it more risky to extend credit without the possibility - or with reduced possibility - of redress against the government. They will also have to look more closely at the profitability of the investment and the undertaking receiving the loan. Thus the profitability of the agricultural undertaking is the foremost criterion and not, as it was, simply the provision of security. The bank will therefore have to look closely at continuous supervision of the progress of business of the undertaking. It is quite feasible for credits to be made available to undertakings unable to provide adequate security in the form of personal capital or government guarantees but with good prospects of a proper return; on the other hand, credits may be refused to undertakings which are able to provide good security but no profit prospects. The granting of credit can be considered as being a support to the borrower only if it contributes to strengthening and improving the economic position of the borrower's business. Credits granted to undertakings which may be able to provide security but which may be assumed, from their trading figures, to be unable to redeem such loans without a loss of substance are of no help to the parties concerned, but serve them ill. If agricultural credit is more in keeping with the market rate it will be able to contribute to correct control of agricultural credit in terms of both macro-economics and agriculture generally.

Credit would flow more strongly to those companies whose marginal costs structure permits a further increase in fixed costs to be absorbed by intensification of activities so that the costs per unit product can be reduced, hence undertakings operating below optimum conditions.

A reduction of the quantitative and qualitative support by the government in respect of the granting of credit to agriculture would result in a number of marginal undertakings leaving the production process. With such a change in the traditional agricultural policy, however, the question arises as to whether or not the common market and price policy cannot also be reconsidered. If the agriculturist is faced with higher financial burdens (in keeping with market rates), production costs and the acceptable consumer prices of the agricultural product must indeed be prevented from developing still further in opposite directions.

#### B.2. Development of the capital market (to 1980 or 1985)

Ideas about the development of the capital market during the next decade and the chances of agriculture being able to adapt its credit demand to such development requires a gift of clairvoyance supported by subjective considerations and expectations of the author(s). Such ideas are also marked by speculative features which may underestimate or exaggerate the quantitative element in such a study. The dividing line between fiction and reality is difficult to draw not only in the case of long-term studies but also in the case of studies with a limited time horizon, in view of recent experiences with many macro-economic models.

It would also border on audacity to attempt to estimate the magnitude of the future medium and long-term external capital requirements by agriculture in the EEC. Although we have already established that the trend towards harmonization between the market rate and agricultural credit will induce a selection process probably resulting in a reduction of the number of agricultural undertakings, such a reduction does not necessarily mean a reduction in credit volume. It is quite feasible that agricultural capital-intensity will progress further and that, in view of the limited prospects of self-financing in agriculture, the demand for external capital will be intensified.

The experts of the group agreed that intensified credit demand must be expected in the near future and this demand will be determined by the expansion of capital goods (net investments) and by the need for refinancing the existing production apparatus. These capital requirements are of course influenced by the tempo of inflation here and there. The growth of net investments is dependent upon the investment level already obtained and the economic prospects for agricultural undertakings. The high rises in costs necessitate structural adjustments of the production apparatus. In concrete terms this means enlargement of scale and accelerating substitution of labour by capital. This means that increased investments are expected particularly in the area of buildings and fixed assets (equipment) and to a lesser degree in respect of land (cultivation investments and land improvements). The need to adapt undertakings to modern management particularly means replacing old buildings, which in no way meet the requirements of modern production technique, by new buildings. There is a fairly considerable backlog in this respect in practically every EEC State.

In addition to these structural adjustments of production potential an increase in the stock of capital goods by net investments capital requirements are determined by the necessary refinancing of the existing production apparatus. This latter factor also arises out of the structural changes in agriculture, and the trend to larger and, more particularly, efficient production units. This striving towards larger and efficient production units means that the existing operating volume is maintained and continuously adapted to modern production techniques and - where possible - operating area increased.

However, since the total area of agricultural land in different Member States cannot be extended any further - there is even a gradual reduction of the total area of cultivated land due to the increasing demand for land for non-agricultural purposes (town expansion, road construction and recreation, etc) - the area increase of agricultural undertakings must come from discontinued and reduced-size undertakings<sup>1)</sup>.

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1) Although this involves net financing of the purchasing undertaking, it means a refinancing for the agricultural sector.

Reinvestment for continuing renewal of the production apparatus and the adaption of new production technology may result in an increased demand for external capital if the capital intensity already attained induces agriculture to apply increasingly more complex and hence frequently more expensive production methods which cannot be covered by depreciation of the investment goods which are to be replaced.

Refinancing is also necessary if the leased agricultural area is acquired as his own property by the tenant. This trend, which is observed in most of the EEC Member States, justifies the assumption that extra capital requirements will arise under this heading.

An important component in refinancing is the compensation of capital withdrawal in the case of succession to an undertaking by inheritance. If the inheritance law provides that each child is equally entitled to inherit, as in Germany and the Netherlands<sup>1)</sup>, then part of the undertaking capital is withdrawn from the agricultural sector. This means that whoever continues the undertaking must in due course pay out to the other heirs part of the capital invested in the undertaking. Replacement financing must be found for the capital withdrawn from the undertaking.

The demand for capital in agriculture will be determined not only by net investments and replacement investments but also by the price level of the means of production, i.e. the development of land prices. In view of the political element in price determination, it is difficult to estimate to what extent this increase in the financing burden can be absorbed by higher produce prices.

Apart from these factors - influences which may cause the demand for (external) capital to stagnate or at least fall off must also be taken into consideration. We are thinking here of those economic aspects in agriculture which are increasingly finding acceptance in the planning of agricultural undertakings. It would not appear premature to assert that the risk of wrong investments will be reduced by sharper supervision by private and (para)national financing bodies of the liquidity and profitability of agricultural undertakings.

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1) In certain regions in Italy (Trentino-Alto Adige) an inherited undertaking may not be divided up.



The agriculturist also has a growing economic and commercial knowledge available and is increasingly employing accounting methods to determine trading results. The changes in government support to agriculture and the more careful investment behaviour of the agriculturist should also have the effect of a more intensive (common) utilization of a stock of machinery - for example, common operation of agricultural equipment on a co-operative or loan basis and the leasing of machinery from hire companies. Consequently, the credit demand for investments in machinery should not assume the volume that might be expected on the basis of the progressive substitution of labour by capital.

Capital requirements will also be reduced as a result of the increasing shift of certain operations and production processes to undertakings in the processing, finishing and marketing sector. As specific activities are taken over by such undertakings, the capital requirements shift from the agricultural to the industrial sector.

Despite the said uncertainty factors, some of the experts have quantified the capital requirements of agriculture in the near future. The Danish report outlines the anticipated growth in operating capital based on a reduction of operating units from 134 000 to 75 000, and the number of full-time farmers from 146 000 to 92 000 in the period from 1972 to 1987. It is expected that the technical operating capital (operational farm buildings, equipment, livestock and deadstock) will increase from Dkr 32 000 million in 1972 to Kdr 45 000 million in 1987 (in 1972 prices). Net and reinvestments in the said assets would increase annually by Dkr 2312 million in the period from 1978 to 1987. In France, where the proportion of agriculture in the gross national product is expected to fall from 6.9% in 1970 to 5% in 1980, agricultural investments will nevertheless expand at a high rate. It is expected that the new contracted credits in 1980 will have a volume of Ffr 24 500 million (in 1970 Ffr). Between 1975 to 1980 the call on external capital here will increase more intensively because the ability of agriculture to finance itself will drop further.

In Ireland, the total net investments will increase by about £700 million in the period from 1975 to 1985. It is considered feasible that the net investments in the first half of that period will rise more sharply than in the second half.

In Luxembourg, a considerable decline in the number of agricultural undertakings is predicted, from 6400 in 1974 to 2500 in 1985. The financing requirements, particularly for the acquisition of these undertakings, will be Lfr 10 000 million. Supposing the government is prepared to cover 35% of these requirements, the additional burden on the agricultural sector in the next ten years is expected to be Lfr 650 million per annum.

In the Netherlands, the extra capital requirements of agriculture in the period from 1974 to 1981 is estimated at 8500 million Dutch guilders<sup>1)</sup> (at 1973 price levels). Of this, 5200 million Dutch guilders is in respect of net investments in land (300 million Dutch guilders), buildings (modernization) (2800 million Dutch guilders), deadstock (new production techniques) (1100 million Dutch guilders) and livestock (1000 million Dutch guilders). Refinancing will experience an increase of 2800 million Dutch guilders, of which 1200 million Dutch guilders is for expansion, 400 million Dutch guilders for increasing the proportion of freehold land and 1200 million Dutch guilders for inherited undertakings. The capital in circulation will also increase by 500 million Dutch guilders.

To what extent the agricultural sector's capital requirements in the EEC Member States can be financed from the agriculturist's own resources depends on the development of the income and the savings of the agriculturist and his family. Although it may be assumed that the number of undertakings will decrease, so that the income of this sector will be distributed over a smaller base, it is uncertain whether the increase in average income will be adequate to cover the financing requirements. In addition, it is impossible to tell whether a real increase in agricultural income can be obtained. It is uncertain whether the produce prices of agricultural products and the productivity increases will exceed the cost increases. Nor do we yet know the path that a possible common incomes policy will take and whether it will proceed in the direction of a system of income allowances or of a guaranteed minimum income for the agriculturist. Even if it were possible to make any estimate of incomes development in agriculture, it would not be possible to give any indication concerning self-financing, for the self-financing of the agriculturist is determined almost exclusively by savings and depreciation, which are uncertain factors.

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1) It is estimated that 6800 million Dutch guilders will be covered by agricultural sector savings, and the external capital will therefore increase by 1700 million Dutch guilders.

For example, it is far from certain whether the average high rate of savings of past years can be maintained. The tendency to share in the growth of prosperity will increase consumer expenditure.

Savings will consequently be under greater pressure. The second uncertain factor in any consideration of self-financing of the agriculturist is depreciation, the extent of which depends upon investments in the preceding years. However, the permissible depreciation percentage is determined by the government and is directly related to the determination of financial profit (in the Netherlands, for example, investment allowance, premature depreciation). Taxable income, and hence income tax payable, are reduced by these government facilities. In this way the mechanism of depreciation facilities has an expansionary effect on financial resources. These facilities are of course only relevant in countries where income tax is levied according to profit (the Netherlands, Denmark, and the UK).

Variation of the depreciation percentage is frequently used by the government as an instrument to stimulate or check economic activity. It is therefore impossible to quantify over a long period the financing capacity of depreciation.

Notwithstanding the imperfections in estimating the self-financing power of the agricultural sector, it seems probable that even in future years this macro-economic sector will make considerable use of external financing. The question then arises whether these requirements can be satisfied in the near future. In answering this question we are once again on the speculative plane. Conditions on the national and international financial markets cannot be predicted even with a time horizon of just a few months. An approximation even of conditions in the next decade will have a global character. Apart from a few Member States, agricultural credit is not provided solely by special credit institutions. In those countries where this was the case until now, it appears that there will be a changeover to a more universal banking system in the near future.

It would not be opportune to look solely at special credit institutions or banks situated in the national areas. On the contrary, it is necessary to consider the entire banking system and all sources of finance. The reason for this is that the banks invest money in all the macro-economic sectors and attract money from them.

In these conditions there is a transfer of money from the other economic sectors and population groups to agriculture. This adjustment of money and credit flows between agriculture and the other macro-economic sectors also takes place via special agricultural credit institutions. By issuing bonds and taking up money on the capital market against promissory notes they attract money on a broad basis and make it available to agriculture.

As far as the granting of credit to agriculture is concerned, therefore, it is in no sense disturbing that the proportion of the agricultural population in the total population is falling and that its proportion in the total of savings at the banks is also declining. This also applies to those countries with specialized agricultural banks where there were, in the past, refinancing difficulties on the part of the banks in question. The growing universal orientation of these banks both as regards assets and liabilities reduces the dependence of the agriculturist on the cyclical variations of his sector. If this trend becomes established and intensified in coming years it will be welcome insofar as it concerns the continuity of agricultural activities and a probable reduction in government intervention.

The fact that accounting methods are gaining increasing acceptance in agriculture - with the result that differences in the management of an industrial and commercial undertaking and that of an agricultural undertaking are becoming increasingly less marked - should also mean that the agriculturist will become a favourable credit customer to the large commercial banks.

From this aspect, the (quantitative) credit supply to agriculture would appear unlikely to be hard pressed in the near future, although the question remains whether the agriculturist can make use of the credit supply.

Assuming that prices on the money and capital market are influenced by market forces, the rate of interest takes on the role of a credit controller. The agricultural borrower will be proof against the competitive struggle with other would-be borrowers only if he can pay the going rate of interest. In view of the income and yield conditions in agriculture and the anticipated extensive investments, a considerable proportion of agricultural borrowers will not be able to make use of the supply of external capital without financing aid from a national and/or supra-national body.

This applies particularly in the case of investments having a low rate of return. In many cases, government support is still urgently required to attract the necessary money.

Even in the future the granting of credit to agriculture will be determined by the public financing support made available in addition to credit potential.

The EEC Commission proposals have also been made on the basis of this maxim. According to these proposals, government support in agricultural financing must be directed primarily at granting interest-rate subsidies. It is said that variations in interest rates on the capital market can be absorbed by means of interest-rate subsidies. The efficacy of such action, however, is determined by the real interest-rate fluctuations and by the money made available by governments. To assume that government budgets readily reserve large sums of money so that positive changes in the capital market rate of interest can at all times be met by an increase in interest subsidies would indicate a lack of a sense of reality. In view of the annually recurring budgetary difficulties, the agricultural borrower must be prepared for the competitive element in the granting of credit and thus an increase in credit costs.

In coming years agriculture will be up against a considerable demand for external capital by industry and government on the money and capital market.

The financial position of the industrial countries and commercial undertakings has deteriorated sharply due to the recession in recent years. Such development is a "normal" phenomenon for this phase of the economic cycle. The liquid assets of the undertakings are fairly low; cash-flows are reduced by (high) wage costs, low productivity and increasing capital costs. At the present time this situation is further aggravated by spreading inflation inland and on world markets and this has an additional influence on the (already reduced) cash-flow. The drying up of the income flow and low profit margins - which have not been taken into account by governments in some countries - have in recent years made it impossible for undertakings to supply from within the resources required for investments.

They have had to have recourse to the capital market and the banks. Consequently, the financial structure of many undertakings has shifted to the detriment of the undertaking's own capital. Even if the cash flows of the economy were to improve during a possible economic revival, that is still no reason for any restoration of the own-capital basis. Inflation, the end of which is not yet in sight, the continuing pressure from governments on the income and capital position, and probably also the inclination of undertakings to give the word "profit" - which has gradually acquired a negative tone - a low quantitative meaning, will be reasons for maintaining the demand for external capital even in the near future. A striking phenomenon in the welfare states is that increasingly more functions are transferred to the government. Where a central body was originally responsible for protecting its citizens from within and without, the start of the century saw the process develop to controlling the economy. The government is now considered responsible for balanced economic development always marked by growth figures. The "State" is also responsible for social welfare, health services, teaching, traffic, environment and so on. This function should be carried out without an excessive increase of the citizen's financial burdens. In covering the accelerated expenditure, the government should consider the taxpayer's threshold of sensitivity in its attempts to adapt the revenue flow. If this threshold is crossed, initiative is stifled and financial activities outside the law are stimulated. The government must meet its financing requirements quietly, in part, by means of indirect taxation and/or borrowing money. If the (net) credit financing exceeds macro-economic savings, interest-rates are affected as a result. Given unlimited capital market conditions, the public sector can satisfy its borrowers only if it performs better than its competitors.

This is usually easier for this sector since interest arrangements can be made in such cases without regard to profitability considerations. In view of the disturbing projections of the (net) financing deficits of governments in future years, this influencing factor on interest-rate development must also be taken seriously into consideration.

For 1976 there will be a joint net financing deficit by the governments of the large industrial countries (including the USA and Japan) of 481 000 million Dutch guilders (143 000 million u.a.), which is equivalent to an increase of 70% over 1975.

Even if the financing deficits of the governments decrease in the event of an economic recovery in the distant future, the servicing (interest and repayments) of loan activities in recent years still forms an appreciable burden on future budgets. In addition to the call on financial markets under this heading, the government may in future years call on the capital markets to an increased degree to consolidate short-term loans taken up in previous years.

Government financing deficits expressed as percentages of the gross national product:

	<u>1974</u>	<u>1975</u>	<u>1976</u>
Belgium	2.9	4.8	
Federal Republic of Germany	1.0	7.3	6
France	0.3	3.1	3.4
Italy	9.2	9.8	9.7
Netherlands	2.8	2.6	8.0
UK	4.4	12.1	9.1

In 1974 and 1975 there was no difficulty in covering government financing deficits by the lagging credit demand by industry and the increased tendency to save (anxiety saving) by family households. There may also be an end to this situation in coming years if the demand by industry for external capital increases in the event of the economy picking up so that the trend to save will decrease. Undertakings and the public sector will then become competitors on financial markets.

Apart from these national influences, events on the money and capital market are marked by external factors in view of an ever-increasing liberalization of international payment transactions. The balance on the current account of the balance-of-payments is not only reflected on the money and capital market and on the position of the (national) currency in question on the foreign-exchange markets, but can also induce capital movements which influence the national interest rate level, this effect being intensified by expectations in connection with the economic activity of the countries in question. At the present time the national money and capital markets are so integrated in the international financial markets that fluctuations of interest rates abroad or on the Euro-money and Euro-capital market are directly reflected in synchronous fluctuations in the national interest rate.

In a reflection on the future development of interest rates on the international financial markets it can be stated that the violent fluctuations of the international interest rate such as occurred in the past two years can be regarded as less probable.

The world recession combined with the decline in oil imports and increased exports to the oil-producing countries resulted in a considerable improvement in the balance of payment position of the industrial countries in 1975. The large deficits on current accounts in the balance-of-payments of most of the industrial countries, which in 1974 were the cause of grave strains on the international financial markets, fell in 1975 or gave way to surpluses. The joint balance-of-payments deficits of the OECD countries, which in 1974 were 33 000 million US \$, were 6000 million US \$ in 1975. The ten largest industrial countries even showed a small surplus (about 2000 million US \$). The surpluses of the oil-producing countries fell from 67 000 million US \$ to 43 000 million US \$ in 1975 due to the decline in oil exports with a simultaneous expansion in imports. Assuming a gradual economic recovery, a result of the revival will be that the import activities of the OECD countries will again exert pressure on the balance of payments but the ambitious investment plans of most of the oil-producing countries will provide a counterweight due to the increased imports by these countries. For 1978 a surplus of 6000 million US \$ is expected on the joint current account of the industrial countries and a surplus of 25 000 million US \$ on the current account of the OPEC countries. One problem - and uncertainty factor - is the developing countries, whose joint deficits are expected to rise from 17 000 million US \$ in 1974 to 27 000 million US \$ in 1978.

Nevertheless the (prospective) better-balanced allocation of surpluses and deficits of the different groups of countries will give international capital movements greater stability.

It is not logical to conclude directly from this that there will be a downward pressure on international interest rates. Increased competition by the private and public sectors at home may encourage recourse to the international financing markets. Any resulting upward pressure on the international interest rate level may be accentuated if the economic recovery produces inflationary reactions. The OECD expects that inflation will increase as from the autumn of 1976.



If this is verified, the interest in long-term investments will fall and financing activities will be concentrated on the international money market. A return to the interest rate levels of 1974 - when the (international) short-term rate was 14% and the long-term rate  $11\frac{1}{2}\%$  - then becomes feasible for 1977 to 1978. In view of the close links between the national money and capital markets and the international financial markets, there will also be repercussions on the national interest rate levels.

To summarize, agriculture will certainly not be devoid of financial sources in the future. The availability of foreign capital does not appear to be a restriction on agricultural activities, but the price of obtaining that capital does. This means that the agriculturist must match investments to the available return better than previously. A higher rate of return will be the determining factor as to whether or not to invest. Business management criteria should find acceptance in the management of the agriculturist's undertaking. In this way, agricultural credit would be directly controlled both macro-economically and from the agricultural aspect. The credit flow would be stronger towards those undertakings whose marginal costs structure allows a further increase of the capital markets to be absorbed. This would have the effect that a number of marginal undertakings would have to leave the production process unless government support were available. Although this conclusion may be rational in economic terms, socio-economic reasons make it impossible to put into practice in various regions of the EEC Member States.

If the agricultural borrower, whose income and production situation is determined by the nature of the agricultural land and/or the distance from market, is to withstand the competitive struggle for tight financial resources, he will have to have recourse to the financial aid of a national and/or supra-national body even in the future. It would appear appropriate to provide financing support in the form of grants and interest-rate subsidies. Influences of the money and capital market on agriculture can work through in this way and specific activities can be stimulated or checked by varying the interest-rate margin.



### C. Conclusions

Over the last decades, structural changes have been taking place in agriculture in the EEC Member States. The changes were caused not only by market factors but also as the result of decisions taken by national and supranational bodies. A combination of internal and external forces governed agricultural activities.

The period of consolidation, reconstruction and gradual modernization of the 1950s was followed by a period of intensive, large-scale and diversified farming and this trend is still in progress.

The accompanying growth in investments in both fixed and movable property, which was brought about by modernization and an increase in the scale of agriculture and which, because of the accelerated decrease in the value of money, steadily rose in nominal value, consequently called into question the traditional methods of financing agriculture, namely the high level of self-financing (savings and depreciation), to such an extent that farmers in all the EEC Member States had to resort to supplementary (external) financing methods. Accordingly, in virtually all the Member States, the ratio of personal internal to borrowed (external) capital shows that personal internal is declining.

Increased reliance on borrowed capital coincides, however, with the turning point in the amount and quality of backing given by the authorities towards the granting of credit to agriculture. Restrictive policy has also often involved cuts in the agricultural credit available, and the cost of agricultural credit likewise increased as a result of the market rate of interest. Until the beginning of the 1970s the authorities endeavoured to cushion the effects of the increased interest rates on agricultural credit. However, for the last two years they have no longer been able to meet the substantial increases in interest rates. The heavy financial burden on the authorities no longer allows them to make further increases in interest rate subsidies.

The report has shown that in the near future the maintenance or improvement of agricultural incomes will demand a continuous increase in the agricultural capital coefficient. Still more will have to be done in this respect in the form of investments in breadth and, above all, in depth.

In view of the limited prospects of an improvement in the self-financing of agriculture, the demand for external capital will also be intensified in the near future. As a consequence of the changeover as described in the quantitative and qualitative backing by governments in granting credit to agriculture in the EEC Member States, agriculture will become increasingly exposed to (market) forces on the financing markets. Agriculture will have to compete with other borrowers, i.e. public authorities and industry on the financial markets to an increasing extent. If the agricultural sector wishes to remain at all competitive in this sphere, it must pay a higher price for loans. This means that, even more than in the past, farmers must measure their planned investments against the profits to be obtained from them. Higher profits would be the criterion for whether or not to invest. Business economics criteria should therefore be adopted to a greater extent by farmers in managing their farms.

In this way a correct organization of agricultural credit would occur both from the macro-economic and agricultural point of view. The flow of credit would in fact proceed to a greater degree towards the efficiently operating undertakings whose cost structure enables any further increase in capital costs to be absorbed. This will ultimately lead to a number of marginal undertakings being lost to the production process if there is no government backing. Although this conclusion may be rational in economic terms, it cannot be put into practice in various regions of the EEC Member States because of social considerations. For this reason, therefore, agricultural borrowers must in the near future rely on financing aid by a national and/or supranational body. The appropriate system would appear to be to provide this financial backing in the form of grants or interest-rate subsidies. A proposal of this kind which falls within the framework of the EEC guidelines 159/72 offers the possibility of allowing the influences of the money and capital markets to work through to agriculture. If, however, the agricultural sector has to face higher financial burdens in keeping with market rates to an increasing degree, the question arises whether it would be advisable to revise the common market and price policy in view of such a change in the traditional agricultural credit policy.



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No. 3	Credit to agriculture III. Italy	February 1976	F I
No. 4	Credit to agriculture IV. The Netherlands	February 1976	E N
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